



Legal Department

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T.R.A. DOCKET ROOM

**IDT Corporation**

520 Broad Street  
Newark, NJ 07102 USA  
P 973 438/3342  
F 973 438/1455  
www.idt.net

September 22, 2003

**VIA OVERNIGHT MAIL**

K. David Waddell  
Executive Secretary  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 32743

**Re: In the Matter of the Application of IDT America, Corp.  
For A Certificate to Provide Competitive Local  
Telecommunication Services  
Docket No. 03-00529**

Dear Executive Secretary Waddell:

I have enclosed an original and thirteen (13) copies the Application of Entrix Telecom, Inc. in the above-listed matter as well as a \$25.00 filing fee. Please date stamp the additional copy of this cover letter and return it in the enclosed self-addressed, stamped envelope.

If you have any questions about this Application, please contact me at (973) 438-4854.

Sincerely,

A handwritten signature in cursive script that reads "Carl Wolf Billek".

Carl Wolf Billek  
IDT America, Corp.

Enclosure

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**IN THE MATTER OF THE APPLICATION  
OF IDT AMERICA, CORP. FOR A CERTIFICATE  
TO PROVIDE COMPETING LOCAL  
TELECOMMUNICATION SERVICES**

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Docket 03-00529

**APPLICATION FOR CERTIFICATE TO PROVIDE  
COMPETING LOCAL TELECOMMUNICATIONS SERVICES**

Pursuant to applicable Tennessee Statutes and the Rules and Regulations of the Tennessee Regulatory Authority and Section 253 of the Federal Telecommunications Act of 1996 ("Act"), IDT America, Corp. ("IDT") respectfully requests that the Tennessee Regulatory Authority ("TRA") grant to IDT authority to provide competing local telecommunications services, including exchange access telecommunications services, within the State of Tennessee. IDT is willing and able to comply with all applicable rules and regulations in Tennessee pertaining to the provision of competing local telecommunications services.

In support of its Application, IDT submits the following:

1. The full name and address of the Applicant is:

IDT America, Corp.  
520 Broad Street  
Newark, New Jersey 07102-3111  
Telephone: (973) 438-1000

Questions regarding this application should be directed to:

Carl Wolf Billek, Associate General Counsel  
IDT America, Corp.  
520 Broad Street  
Newark, New Jersey 07102-3111  
Telephone: (973) 438-4854  
Facsimile: (973) 438-1455  
Email: Carl.Billek@corp.idt.net

Contact name and address at the Company is:

Carl Wolf Billek, Associate General Counsel  
IDT America, Corp.  
520 Broad Street  
Newark, New Jersey 07102-3111  
Telephone: (973) 438-4854  
Facsimile: (973) 438-1455  
Email: Carl.Billek@corp.idt.net

2. An overview of IDT's Corporate Structure is provided at **Exhibit A**.
3. IDT America, Corp. was incorporated in the state of New Jersey on June 24, 1994. A copy of IDT's Articles of Incorporation are provided in **Exhibit B**.

A copy of IDT's Authority to transact business in the State of Tennessee is provided in **Exhibit C**.

The names and addresses of the principal corporate officers are in **Exhibit D**. There are no officers in Tennessee.

The biographies of the principal officers and any other key technical staff are in **Exhibit E**.

4. IDT possesses the managerial, technical, and financial ability to provide local telecommunications service in the State of Tennessee as demonstrated below:

A. Financial Qualifications:

In support of its financial qualifications, IDT America, Corp. submits the most recent 2003 SEC Form 10-Q and year-end 2002 SEC Form 10-K of its parent company, IDT Corporation, in **Exhibit F**. IDT Corporation is a diversified telecommunications company, providing more than 600,000 subscribers with toll service throughout the United States. IDT Corporation's principal lines of business are long distance and local communications. **Exhibit F** summarizes the recent financial performance of the parent company. These include income statements, balance sheets, and statement of cash flows for year-end 2002. Thus, IDT asserts that it has the financial resources necessary to operate as a competitive local service provider in Tennessee.

IDT respectfully requests that it not be required to provide projected financial statements or capital expenditures for the coming three (3) years, as IDT has not determined such figures on a state-specific basis.

IDT is a national company and it intends to offer local exchange service nationwide, thus, it cannot easily determine Tennessee-specific costs. Additionally, IDT does not intend to purchase its own facilities, and it intends to rely on the unbundled network elements and resold facilities of incumbent local exchange providers to offer service.

Moreover, IDT has provided interexchange service in Tennessee for approximately six (6) years, demonstrating its financial capabilities. If the Commission has any concerns regarding IDT's financial capabilities that are not fully addressed by its history of financial capability and the enclosed Surety Bond, IDT will submit a guarantee from its parent, IDT Corporation, to make up to \$500,000 available for the operation of local exchange service over the coming three years. As demonstrated in **Exhibit F** of this Application, IDT Corporation is unquestionably capable of meeting such a guarantee.

Corporate Surety Bond is provided as **Exhibit G**.

B. Managerial Ability:

As shown in **Exhibit E** to this Application, IDT has the managerial expertise to successfully operate a telecommunications enterprise in Tennessee, as it has done for over six (6) years. As described in the attached biographical information, IDT's management team has extensive management and business experience in telecommunications.

C. Technical Qualifications:

IDT services will satisfy the minimum standards established by the TRA. The Company will file and maintain tariffs in the manner prescribed by the TRA and will meet minimum basic local standards, including quality of service and billing standards required of all LECs regulated by the TRA. Applicant will not require customers to purchase CPE, which cannot be used with the Incumbent Local Exchange Carrier's systems. As noted in the biographies **Exhibit E** of the principal officers, there are two officers with engineering backgrounds and several years of telecommunications expertise. Thus, IDT is certainly technically qualified to provide local exchange service in Tennessee.

5. Proposed Service Area:

Applicant is licensed/registered to provide intrastate, interexchange service in all fifty (50) states. Applicant is authorized to provide local exchange service in the following states: Alabama, California, Colorado, District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Nevada, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, Washington, West



Virginia and Wisconsin. Applicant has applications to provide local exchange service pending in the following states: Arizona, Arkansas, Connecticut, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma and Wyoming. Applicant has never had a petition to provide local exchange service denied and Applicant has never had an approval to provide local exchange service revoked.

The applicant proposes to offer its services in those areas of the State of Tennessee where Bell South, GTE, Sprint and/or any other ILEC that does not enjoy a rural exemption under Section 251(f) of the Telecommunications Act of 1996 are the incumbent local exchange carrier.

IDT intends to offer this broad range of telecommunications services through the use of unbundled network elements - platform, resold facilities, and through a combination of these provisioning methods.

6. Types of Local Exchange Service to be provided:

IDT expects to offer a broad variety of local exchange services, primarily to residential and small business customers in Tennessee. IDT's initial line of local services will be comparable to that currently offered by the incumbent LECs. Initially IDT plans to offer basic access line service, Optional Calling Features, Directory Assistance, Directory Services, and Operator Services, as well as all services required under Chapter 1220-4-8-.04 (3) (6) and (2).

7. Repair and Maintenance:

IDT understands the importance of effective customer service for local service customers. IDT has made arrangements for its customers to call the company at its toll-free customer service number 1-800-889-9126. In addition, customers may contact the company in writing at the headquarters address. The toll free number will be printed on the customer's monthly billing statements. The Tennessee contact person knowledgeable about providers operations is Carl Billek, Associate General Counsel, reference (1.) above.

Grant of the Application will further the goals of the Tennessee Legislature and further the public interest by expanding the availability of competitive telecommunications services in the State of Tennessee. In addition, intrastate offering of these services is in the public interest because the services will provide Tennessee customers increased efficiencies and cost savings. Authorizing IDT to provide local exchange telecommunications services will enhance materially the telecommunications infrastructure in the State of Tennessee and will facilitate economic development.

In particular, the public will benefit both directly, through the use of the competitive services to be offered by IDT and indirectly, because IDT's presence

in Tennessee will increase the incentives for other telecommunications providers to operate more efficiently, offer more innovative services, reduce their prices, and improve their quality of service. Grant of this Application will further enhance the service options available to Tennessee citizens for the reasons set forth above.

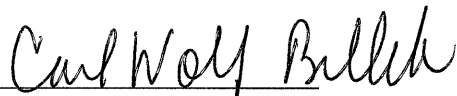
8. Please see **Exhibit H** for IDT's Small and Minority-Owned Telecommunications Business Participation Plan.
9. Please see **Exhibit I** for IDT's Toll Dialing Parity Plan.
10. Applicant has served notice of this application to the eighteen (18) incumbent local exchange telephone companies in Tennessee with a statement regarding the company's intention of operating geographically. See **Exhibit J** for the list.
11. Please see **Exhibit K** for IDT's Statement regarding Numbering Issues.
12. Tennessee Specific Operational Issues: Statements provided in **Exhibit L**
13. Miscellaneous:
  - A. Please see **Exhibit M** for Applicant's Sworn Pre-filed testimony.
  - B. Applicant does not require customer deposits.
  - C. As of the date of this Application, IDT has not been subject to complaints for its local exchange service in any of the states in which we are doing business.
  - D. Upon approval of this Application and an interconnection agreement, IDT will file its local exchange service tariff. IDT will not offer service until such tariff is approved by the TRA.

## CONCLUSION

IDT respectfully requests that the TRA enter an order granting it a certificate of convenience and necessity to operate as a competing telecommunications service provider and authority to provide a full range of local exchange on a facilities-based and resale basis throughout the State of Tennessee in the service areas of Bell South, GTE and Sprint and any other ILEC that does not enjoy a rural exemption under Section 251(f) of the Telecommunications Act of 1996.

For the reasons stated above, IDT's provision of these services would promote the public interest by providing high-quality service at competitive prices and by creating greater economic incentives for the development and improvement for all competing providers.

Respectfully submitted this 22<sup>nd</sup> day of September 2003

  
Counsel for IDT America, Corp.

## **LIST OF EXHIBITS**

- Exhibit A - Corporate Structure**
- Exhibit B - Articles of Incorporation**
- Exhibit C - Authority to Transact Business in the State of Tennessee**
- Exhibit D - Officers and Directors**
- Exhibit E - Management**
- Exhibit F - IDT Corporation 2003 SEC Form 10-Q & 2002 SEC Form 10-K**
- Exhibit G - Corporate Surety Bond**
- Exhibit H - Small and Minority-Owned Telecommunications Business Participation Plan**
- Exhibit I - Toll Dialing Parity Plan**
- Exhibit J - Carrier List**
- Exhibit K - Statement regarding Numbering Issues**
- Exhibit L - Tennessee Specific Operational Issues: Statements**
- Exhibit M - Sworn Pre-filed Testimony of Carl Wolf Billek**

## **Exhibit A - Corporate Structure**

IDT America, Corp. is a wholly owned subsidiary of IDT Domestic Telecom, Inc., a Delaware corporation. IDT Domestic Telecom, Inc. is a wholly owned subsidiary of IDT Telecom, Inc., also a Delaware corporation. IDT Telecom, Inc. is a wholly owned subsidiary of IDT Corporation, a Delaware corporation that is publicly traded on the New York Stock Exchange (IDT, IDT.C).

Applicant's affiliates Entrix Telecom, Inc. and Winstar Communications, LLC, which are both registered utilities in the State of Tennessee, are also subsidiaries of IDT Corporation.

All the entities mentioned in this section are located at 520 Broad Street, Newark, New Jersey 07102-3111. The main telephone number for all the entities is (973) 438-1000.

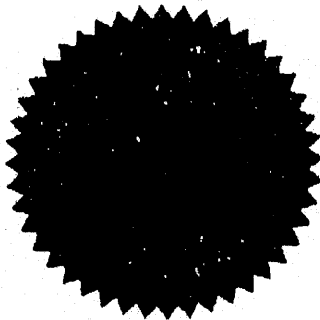
## **Exhibit B - Articles of Incorporation**

STATE OF NEW JERSEY  
DEPARTMENT OF TREASURY  
FILING CERTIFICATION (CERTIFIED COPY)

IDT AMERICA, CORP.

*I, the Treasurer of the State of New Jersey,  
do hereby certify, that the above named business  
did file and record in this department the below  
listed document(s) and that the foregoing is a  
true copy of the  
certificate of incorporation  
as the same is taken from and compared with the  
original(s) filed in this office on the date set  
forth on each instrument and now remaining on file  
and of record in my office.*

IN TESTIMONY WHEREOF, I have  
hereunto set my hand and  
affixed my Official Seal  
at Trenton, this  
13th day of October, 2000



*Roland M Machold*

Roland M Machold  
Treasurer



**FILED****JUN 24 1994****CERTIFICATE OF INCORPORATION****OF****IDT AMERICA, CORP.****LONNA R. HOOKS**  
Secretary of State

The undersigned, of the age of eighteen (18) years or over, for the purpose of forming a corporation pursuant to the provisions of Title 14A, corporations, General, of the statutes of the State of New Jersey, does hereby execute the following Certificate of Incorporation:

- FIRST:** The name of the corporation is:  
IDT AMERICA, CORP.
- SECOND:** The purpose or purposes for which this corporation is organized are:  
To conduct all activities set forth and permitted under and by virtue of the terms, conditions and provisions of Title 14A, "New Jersey business Corporation Act."
- THIRD:** The aggregate number of shares which the corporation shall have authority to issue is ten thousand (10,000) shares, no par value.
- FOURTH:** The address of the corporation's initial registered office is 1506 West Terrace Circle  
Unit #6  
Teaneck, NJ 07666
- FIFTH:** The name of the corporation's initial registered agent at such address is: David Barth  
1506 West Terrace Circle  
Unit #6  
Teaneck, NJ 07666
- SIXTH:** The number of directors constituting the initial Board of Directors shall be three (3).
- SEVENTH:** The name and address of each person who shall serve as Directors are as follows:

Howard Jonas, 3220 Arlington Avenue, Riverdale, NY 10463

0100592481

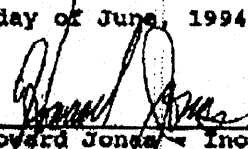
Deborah Jonas, 3220 Arlington Avenue, Riverdale, NY 10463 -

Joyce J. Mason, 170 W. 23rd Street, New York, NY 10011 -

**EIGHTH:** The period of existence of this corporation is unlimited.

**NINTH:** A director shall not be personally liable to the corporation or its shareholders for damages for breach of any duty owed to the corporation or its shareholders; except that this provision shall not relieve a director from liability for any breach of duty based upon an act or omission (a) in breach of such person's duty of loyalty to the corporation or its shareholders, (b) not in good faith or involving a knowing violation of law or (c) resulting in receipt by such person of an improper personal benefit.

**IN WITNESS WHEREOF,** the undersigned incorporator has hereunto subscribed his name this 21th day of June, 1994.

  
Howard Jones - Incorporator  
3220 Arlington Avenue  
Riverdale, NY 10463

**Exhibit C - Authority to Transact Business in the State of Tennessee**

# Secretary of State

## Corporations Section

James K. Polk Building, Suite 1800  
Nashville, Tennessee 37243-0306

ISSUANCE DATE: 02/12/1999  
REQUEST NUMBER: 99043106

CHARTER/QUALIFICATION DATE: 07/25/1996  
STATUS: ACTIVE  
CORPORATE EXPIRATION DATE: PERPETUAL  
CONTROL NUMBER: 0315393  
JURISDICTION: NEW JERSEY

TO:  
IDT CORPORATION  
AT: VITO BARBIERA  
190 MAIN STREET  
HACKENSACK, NJ 07601

REQUESTED BY:  
IDT CORPORATION  
AT: VITO BARBIERA  
190 MAIN STREET  
HACKENSACK, NJ 07601

I, RILEY C DARNELL, SECRETARY OF STATE OF THE STATE OF TENNESSEE DO HEREBY CERTIFY THAT  
-----  
"IDT AMERICA, CORP"

-----  
WAS INCORPORATED OR QUALIFIED TO DO BUSINESS IN THE STATE OF TENNESSEE ON THE  
ABOVE DATE, AND THAT THE ATTACHED DOCUMENT(S) WAS/WERE FILED IN OFFICE ON THE  
DATE(S) AS BELOW INDICATED:

REFERENCE NUMBER	DATE FILED	FILING TYPE	FILING ACTION
3198-0179	07/25/1996	QUAL-PROFIT	NAM DUR STK PRN OFC AGT INC MAL FYC
ROLL 3612	01/15/1999	DETERMINATION	

-----  
FOR: REQUEST FOR COPIES

ON DATE: 02/12/99

### FEEES

FROM:  
IDT CORP.  
294 STATE ST.

RECEIVED: \$20.00 \$0.00  
TOTAL PAYMENT RECEIVED: \$20.00

HACKENSACK, NJ 07601-0000

RECEIPT NUMBER: 00002433288  
ACCOUNT NUMBER: 00257585



*Riley C Darnell*

RILEY C. DARNELL  
SECRETARY OF STATE

**Secretary of State  
Corporations Section**

**James K. Polk Building, Suite 1800  
Nashville, Tennessee 37243-0306**

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190 MAIN STREET  
HACKENSACK, NJ 07601

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"IDT AMERICA, CORP"

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ABOVE DATE, AND THAT THE ATTACHED DOCUMENT(S) WAS/WERE FILED IN OFFICE ON THE  
DATE(S) AS BELOW INDICATED:

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ROLL 3612	01/15/1999	DETERMINATION	

-----  
FOR: REQUEST FOR COPIES

ON DATE: 02/12/99

FROM:  
IDT CORP.  
294 STATE ST.  
  
HACKENSACK, NJ 07601-0000

FEES  
RECEIVED: \$20.00 \$0.00  
TOTAL PAYMENT RECEIVED: \$20.00

RECEIPT NUMBER: 00002433288  
ACCOUNT NUMBER: 00257585



*Riley C Darnell*

RILEY C. DARNELL  
SECRETARY OF STATE

# APPLICATION FOR CERTIFICATE OF AUTHORITY FOR

SECRETARY OF STATE  
IDT America, Corp.

To the Secretary of State of the State of Tennessee:

Pursuant to the provisions of Section 48-25-103 of the Tennessee Business Corporation Act, the undersigned corporation hereby applies for a certificate of authority to transact business in the State of Tennessee, and for that purpose sets forth:

1. The name of the corporation is IDT America, Corp.

If different, the name under which the certificate of authority is to be obtained is \_\_\_\_\_

[NOTE: The Secretary of State of the State of Tennessee may not issue a certificate of authority to a foreign corporation for profit if its name does not comply with the requirements of Section 48-14-101 of the Tennessee Business Corporation Act. If obtaining a certificate of authority under an assumed corporate name, an application must be filed pursuant to Section 48-14-101(d).]

2. The state or country under whose law it is incorporated is New Jersey

3. The date of its incorporation is 6/24/94 (must be month, day, and year), and the period of duration, if other than perpetual, is Perpetual

4. The complete street address (including zip code) of its principal office is \_\_\_\_\_

294 State Street, Hackensack, New Jersey 07601

Street	City	State/Country	Zip Code
294 State Street	Hackensack	New Jersey	07601

5. The complete street address (including the county and the zip code) of its registered office in this state is \_\_\_\_\_

530 Gay Street, Knoxville, Tennessee, Knox 37902

Street	City/State	County	Zip Code
530 Gay Street	Knoxville, Tennessee	Knox	37902

The name of its registered agent at that office is \_\_\_\_\_

C T Corporation System

6. The names and complete business addresses (including zip code) of its current officers are: (Attach separate sheet if necessary.)

Howard S. Jonas - President/Treasurer - 3220 Arlington Ave., Riverdale, NY 10463  
Joyce J. Mason - Secretary - 309 Carroll Ave., Mamaroneck, NY 10543

7. The names and complete business addresses (including zip code) of its current board of directors are: (Attach separate sheet if necessary.)

Howard S. Jonas - Chairperson/Director - Same address as above.

Deborah Jonas - Director - " "

Joyce J. Mason - Director - Same address as above.

8. The corporation is a corporation for profit.

9. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date/time is \_\_\_\_\_

\_\_\_\_\_, 19\_\_\_\_ (date), \_\_\_\_\_ (time).

[NOTE: A delayed effective date shall not be later than the 90th day after the date this document is filed by the Secretary of State.]

[NOTE: This application must be accompanied by a certificate of existence (or a document of similar import) duly authenticated by the Secretary of State or other official having custody of corporate records in the state or country under whose law it is incorporated. The certificate shall not bear a date of more than one (1) month prior to the date the application is filed in this state.]

Signature Date

6/13/94  
President

Signer's Capacity

IDT America, Corp.

Name of Corporation

X Howard S. Jonas

Signature

Howard Jonas

Name (typed or printed)

3-1-93 10:130

3-1-94 10:480

96 JUL -5 AM 10:34

96 JUL 25 AM 9:11  
JILL DANKELL  
SECRETARY OF STATE

SECRETARY OF STATE

NEW JERSEY SECRETARY OF STATE

IDT AMERICA, CORP.

I, THE SECRETARY OF STATE OF THE STATE OF NEW JERSEY, DO HEREBY CERTIFY THAT THE RECORDS OF THIS OFFICE SHOW THAT THE CHARTER/AUTHORITY OF THE ABOVE-NAMED NJ BUSINESS WAS FILED IN THIS OFFICE ON JUNE 24, 1994.

I FURTHER CERTIFY, THAT SO FAR AS THE RECORDS OF THIS OFFICE SHOW, SAID BUSINESS HAS NOT BEEN DISSOLVED, CANCELLED, OR WITHDRAWN, NOR HAS ITS CHARTER/AUTHORITY BEEN VOIDED/REVOKED FOR NON-PAYMENT OF STATE TAXES BY PROCLAMATION. IT NOW CONTINUES TO MAINTAIN ACTIVE STATUS WITHIN THE STATE OF NEW JERSEY. AT THE TIME OF THE ISSUANCE OF THIS CERTIFICATE, ANNUAL REPORTS ARE CURRENT.

I FURTHER CERTIFY THAT THE LOCATION OF THE REGISTERED OFFICE IS

1506 WEST TERRACE CIRCLE

UNIT 6

TEANECK

NJ 07666

AND THE REGISTERED AGENT IS DAVID BARTH.

JUN. 07, 1996

*Donna R. Hooker*

SECRETARY OF STATE  
CORPORATIONS SECTION  
JAMES K. POLK BUILDING, SUITE 1800  
NASHVILLE, TENNESSEE 37243-0306

ISSUANCE DATE: 01/15/99  
CONTROL NUMBER: 0315393

CT CORPORATION SYSTEM  
530 GAY STREET  
KNOXVILLE, TN 37902

RE: IDT AMERICA, CORP

**NOTICE OF DETERMINATION**

Pursuant to the provisions of Sections 48-24-201 or 48-25-301 of the Tennessee Business Corporation Act or Sections 48-64-201 or 48-65-301 of the Tennessee Nonprofit Corporation Act, it has been determined that the following ground(s) exist(s) for the administrative dissolution of the above corporation, if a Tennessee corporation, or the revocation of its certificate of authority, if a foreign corporation:

The Corporation Annual Report which was due on or before 11/01/98 has not been filed. To obtain an annual report form or for additional information, please call this office at (615) 741-2286.

If the corporation does not correct each ground for dissolution or revocation or provide evidence that each ground does not exist within two (2) months after issuance date of this notice, the corporation and any associated assumed name(s) shall be administratively dissolved or may have its certificate of authority revoked, as appropriate. For assistance in this regard, please contact this office at the appropriate telephone number listed above.



## **Exhibit D – Officers and Directors**

The Officers and Directors for Applicant are:

Howard Jonas, Chief Executive Officer, Treasurer, and Chairman  
James Courter, President and Director  
Stephen Brown, Chief Financial Officer  
Joyce Mason, Secretary and Director  
Doug Mauro, Senior Vice President  
Marc Knoller, Director

All Officers and Directors are located at:

520 Broad Street  
Newark, New Jersey 07102-3111  
Telephone (973) 438-1000  
Facsimile (973) 438-1455

## **Exhibit E – Management**

## **Managerial and Technical Qualifications Key Personnel for Applicant**

**Howard S. Jonas** founded IDT Corporation in August 1990 and has served as Chairman of the Board and Treasurer since its inception and as Chief Executive Officer Since December 1991. He served as President of IDT Corporation from December 1991 through September 1996. Mr. Jonas has served as Chief Executive Officer and Treasurer of IDT America, Corp. since 1994. Mr. Jonas is also the founder of the Jonas Publishing Corp., a publisher of trade directories, of which Mr. Jonas has been President since 1979. Mr. Jonas received a B.A. in economics from Harvard University.

**James Courter** joined IDT Corporation as President in October 1996 and was named Vice Chairman and CEO of IDT Corporation in 2001. He has been the President of IDT America, Corp. since joining the Company. Mr. Courter has been a senior partner in the New Jersey law firm of Courter, Kobert, Laufer & Cohen since 1972. He was also a partner in the Washington, D.C. law firm of Verner, Lipfert, Bernhard, McPerson & Hand from January 1994 to September 1996. Mr. Courter was a member of the U.S. House of Representatives for 12 years, retiring in January 1991. From 1991 to 1994, Mr. Courter was Chairman of the President's Defense Base Closure and Realignment Commission. Mr. Courter also serves on the Board of Directors of Envirogen, Inc. He received a B.A. from Colgate University and a J.D. from Duke University Law School.

**Stephen Brown** joined IDT Corporation as its Chief Financial Officer in May 1995 and he has served as the Chief Financial Officer of IDT America, Corp. since its inception. From 1985 to May 1995, Mr. Brown operated his own public accounting practice servicing medium-sized corporations as well as high net worth individuals. Mr. Brown received a B.A. in Economics from Yeshiva University and a B.B.A. in Business and Accounting from Baruch College.

**Joyce Mason** has been the Secretary of IDT Corporation since its inception and has served as the Secretary of IDT America, Corp. since its inception. Previously, Ms. Mason was in private legal practice since August 1990. Ms. Mason received a B.A. from the City University of New York and a J.D. from New York Law School.

**Marc E. Knoller** joined IDT Corporation in March 1991 and has been the Vice President of IDT America, Corp. since its inception. From 1998 until March 1991, Mr. Knoller was director of national sales for Jonas Publishing. Mr. Knoller received a B.B.A. from Baruch College.

**Douglas Mauro** is the Senior Vice President for IDT Corporation and IDT America, Corp. He is responsible for all tax matters at IDT America, Corp. and IDT Corporation. Prior to joining IDT Mr. Mauro was Vice President, Tax for Inc Pharmaceuticals in Costa Mesa, California. Mr. Mauro has extensive experience in International taxes at various Pharmaceutical Companies where he served as the top tax officer.

**Keith Mendelson** has held several positions since joining IDT Corporation in 1995. Mr. Mendelson is presently the Executive Vice President of Retail Operations of IDT Telecom, Inc., a subsidiary of IDT Corporation. Mr. Mendelson received a B.A. from Yeshiva University.

**Kathy Timko** is the Executive Vice President of Engineering and Operations of IDT Telecom, Inc. Ms. Timko has served as Chief Operating Officer of InterExchange, IDT Corporation's Engineering and Operations Division, since 1998. From 1995 to 1998, Ms. Timko served as the Executive Vice President of Product Development and Operations at Call Sciences, a provider of enhanced telecommunications services. Prior to 1995, Ms. Timko worked at Bellcore (now Telcordia) and BBN Technologies. Ms. Timko holds a B.S. degree from Virginia Tech and a M.S. degree from Boston University.

**Exhibit F - IDT Corporation 2003 SEC Form 10-Q & 2002 SEC Form 10-K**

**IDT Corporation 2003 SEC Form 10-Q**

IDT CORP filed this 10-Q/A on 09/03/2003.

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Outline

Printer Friendly

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q/A  
Amendment No. 3**

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended April 30, 2003

OR

- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 0-27898

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**IDT CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**520 Broad Street, Newark, New Jersey**  
(Address of principal executive offices)

**22-3415036**  
(I.R.S. Employer  
Identification Number)

**07102**  
(Zip Code)

**(973) 438-1000**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Common Stock, \$.01 par value – 19,654,897 shares outstanding as of June 11, 2003 (excluding 5,419,963 treasury shares)  
Class A common stock, \$.01 par value – 9,816,988 shares outstanding as of June 11, 2003  
Class B common stock, \$.01 par value – 51,220,669 shares outstanding as of June 11, 2003 (excluding 4,019,163 treasury shares)

(Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date)

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**Table of Contents****EXPLANATORY NOTE**

We are filing this Amendment No. 3 on Form 10-Q/A to our quarterly report for the period ended April 30, 2003 primarily for the purpose of restating our financial statements and other financial information included in this report to consolidate the results of Net2Phone, Inc. for the period beginning on October 23, 2001 through July 31, 2002. In our original quarterly report for the period ended April 30, 2002 on Form 10-Q, we accounted for our investment in Net2Phone during this period using the equity method. Note 2 to our condensed consolidated financial statements included in this report summarizes the basis for this restatement. In addition, we have made certain other changes throughout this report to include additional information regarding Net2Phone, and our investment therein, and to clarify and supplement previously disclosed information regarding topics other than Net2Phone.

We have amended and restated our Quarterly Report on Form 10-Q for the period ended April 30, 2003 in its entirety because the changes referenced above have been made throughout the report. This Amendment No. 3 does not contain updates to reflect any events occurring after the original June 16, 2003 filing of our quarterly report on Form 10-Q for the period ended April 30, 2003. All information contained in this Amendment No. 3 is subject to updating and supplementing as provided in our reports filed with the Securities and Exchange Commission, as may be amended, for periods subsequent to the date of the original filing of the quarterly report on Form 10-Q.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS (UNAUDITED)**

**IDT CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	April 30, 2003	July 31, 2002
	(Unaudited)	(Note 1) (Restated)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 243,415	\$ 415,464
Marketable securities	794,259	684,502
Trade accounts receivable, net	133,127	129,308
Other current assets	88,199	78,796
Total current assets	1,259,000	1,308,070
Property, plant and equipment, net	288,070	283,506
Restricted cash	21,290	—
Goodwill	34,424	34,411
Licenses and other intangibles, net	24,310	27,242
Investments	39,471	44,085
Marketable securities	—	18,704
Other assets	62,835	61,644
Total assets	\$ 1,729,400	\$1,777,662
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Trade accounts payable	\$ 97,760	\$ 128,863
Accrued expenses	173,601	160,159
Deferred revenue	120,836	120,206
Capital lease obligations—current portion	25,318	25,963
Other current liabilities	33,412	19,491
Total current liabilities	450,927	454,682
Deferred tax liabilities, net	191,436	233,518
Capital lease obligations—long-term portion	38,502	48,068
Other liabilities	14,299	5,060
Total liabilities	695,164	741,328
Minority interests	162,184	166,564
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—10,000,000; no shares issued	—	—
Common stock, \$.01 par value; authorized shares—100,000,000; 25,147,360 and 24,988,597 shares issued at April 30, 2003 and July 31, 2002, respectively;		
19,727,397 and 19,568,634 shares outstanding at April 30, 2003 and July 31, 2002, respectively	197	196
Class A common stock, \$.01 par value; authorized shares—35,000,000; 9,816,988 shares issued and outstanding at April 30, 2003 and July 31, 2002	98	98
Class B common stock, \$.01 par value; authorized shares—100,000,000; 55,044,832 and 54,009,844 shares issued at April 30, 2003 and July 31, 2002, respectively;		
51,025,669 and 49,990,681 shares outstanding at April 30, 2003 and July 31, 2002,		

respectively		
Additional paid-in capital	510	500
Treasury stock, at cost, consisting of 5,419,963 shares of common stock and 4,019,163 shares of Class B common stock	636,445	606,387
Accumulated other comprehensive loss	(153,713)	(153,713)
Retained earnings	(4,369)	(2,435)
	392,884	418,737
Total stockholders' equity	<u>872,052</u>	<u>869,770</u>
Total liabilities and stockholders' equity	<u>\$ 1,729,400</u>	<u>\$1,777,662</u>

See notes to condensed consolidated financial statements.

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**IDT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2003	2002	2003	2002
Revenues	\$454,870	(Restated) \$ 419,447	\$1,348,808	(Restated) \$1,152,947
Costs and expenses:				
Direct cost of revenues (exclusive of items shown below)	347,117	323,062	1,036,172	886,758
Selling, general and administrative	104,967	131,509	316,863	331,786
Depreciation and amortization	22,349	23,791	65,279	61,876
Settlement by Net2Phone of litigation	—	—	(58,034)	—
Non-cash compensation	16,629	9,061	23,762	15,835
Restructuring, severance and impairment charges	1,707	114,436	9,033	138,414
Total costs and expenses	492,769	601,859	1,393,075	1,434,669
Loss from operations	(37,899)	(182,412)	(44,267)	(281,722)
Interest income, net	6,721	4,531	21,345	17,193
Other income (expense):				
Gain on sale of subsidiary stock	22,422	—	22,422	—
Equity in loss of affiliates	—	—	(3,811)	(5,812)
Investment and other income (expense), net	(10,362)	(4,432)	(15,365)	(10,353)
Loss before minority interests, income taxes and cumulative effect of accounting change	(19,118)	(182,313)	(19,676)	(280,694)
Minority interests	(1,003)	111,487	(46,953)	147,384
Benefit from income taxes	10,818	21,233	40,776	55,173
Loss before cumulative effect of accounting change	(9,303)	(49,593)	(25,853)	(78,137)
Cumulative effect of accounting change, net of income taxes of \$3,525	—	—	—	(146,983)
Net loss	\$ (9,303)	\$ (49,593)	\$ (25,853)	\$ (225,120)
Loss per share:				
Loss before cumulative effect of accounting change:				
Basic	\$ (0.12)	\$ (0.64)	\$ (0.32)	\$ (1.06)
Diluted	\$ (0.12)	\$ (0.64)	\$ (0.32)	\$ (1.06)
Cumulative effect of accounting change, net of income taxes:				
Basic	\$ —	\$ —	\$ —	\$ (2.00)
Diluted	\$ —	\$ —	\$ —	\$ (2.00)
Net loss:				
Basic	\$ (0.12)	\$ (0.64)	\$ (0.32)	\$ (3.06)
Diluted	\$ (0.12)	\$ (0.64)	\$ (0.32)	\$ (3.06)
Weighted-average number of shares used in calculation of loss per share:				
Basic	80,262	76,938	79,808	73,592
Diluted	80,262	76,938	79,808	73,592

See notes to condensed consolidated financial statements.

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**IDT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	Nine Months Ended April 30,	
	2003	2002
Net cash provided by (used in) operating activities	\$ 11,185	(Restated) \$ (27,823)
<b>Investing activities</b>		
Purchases of property, plant and equipment	(51,436)	(36,189)
Issuance of notes receivable	(6,971)	(12,861)
Purchases of investments	(10,348)	(44,974)
Acquisitions	—	(43,450)
Increase in cash from consolidation of Net2Phone	—	144,177
Purchases of marketable securities	(1,741,131)	(580,571)
Sales and maturities of marketable securities	1,648,484	312,999
Net cash used in investing activities	(161,402)	(260,869)
<b>Financing activities</b>		
Proceeds from exercise of stock options	10,046	44,471
Repayments of capital lease obligations	(19,509)	(16,654)
Repurchases of common stock and Class B common stock	—	(15,639)
Proceeds from sales of subsidiaries stock	25,000	30,000
Cash restricted against letters of credit	(21,290)	—
Distributions to minority shareholders of subsidiaries	(16,079)	(13,708)
Net cash (used in) provided by financing activities	(21,832)	28,470
Net decrease in cash and cash equivalents	(172,049)	(260,222)
Cash and cash equivalents, beginning of period	415,464	1,091,071
Cash and cash equivalents, end of period	\$ 243,415	\$ 830,849
<b>Supplemental schedule of non-cash investing and financing activities</b>		
Purchases of property, plant and equipment through capital lease obligations	\$ 9,298	\$ 20,200
Issuance of Class B common stock for acquisitions	\$ —	\$ 30,764

See notes to condensed consolidated financial statements.

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**IDT CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1—Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of IDT Corporation and its subsidiaries (the "Company" or "IDT") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior year's condensed consolidated financial statements to conform to the current year's presentation. Operating results for the three-month and nine-month periods ended April 30, 2003 are not necessarily indicative of the results that may be expected for the year ending July 31, 2003. The balance sheet at July 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A (Amendment No. 1) for the year ended July 31, 2002, as filed with the United States Securities and Exchange Commission.

The Company's fiscal year ends on July 31 of each calendar year. Each reference below to a Fiscal Year refers to the Fiscal Year ending in the calendar year indicated (e.g., Fiscal 2003 refers to the Fiscal Year ending July 31, 2003).

**Note 2—Consolidation of Net2Phone and Restatement**

The condensed consolidated financial statements in this Amendment No. 3 to the Company's quarterly report on Form 10-Q for the quarterly period ended April 30, 2003 have been restated to consolidate the results of Net2Phone for the period beginning on October 23, 2001 through July 31, 2002. In the original report, the Company accounted for its investment in Net2Phone during this period using the equity method. The change in accounting for the Company's investment in Net2Phone from the equity method to consolidation does not change the Company's net loss or loss per share for any previously reported period.

As explained below, and in note 2 to the condensed consolidated financial statements included in the Company's original quarterly report on Form 10-Q for the period ended April 30, 2003, the determination of whether to account for the Company's interest in Net2Phone through the equity method or consolidation was dependent on whether the Company's control of NTOP Holdings, LLC, through which the Company holds its investment in Net2Phone, was deemed to be temporary.

NTOP Holdings was formed on October 23, 2001, when the Company and AT&T Corporation each contributed their minority stakes in Net2Phone into a newly formed limited liability company, NTOP Holdings. Liberty Media then acquired a substantial portion of NTOP Holdings' units from AT&T. NTOP Holdings holds an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing a majority voting stake in Net2Phone. Under the terms of the Second Amended and Restated Limited Liability Company Agreement of NTOP Holdings (the "LLC Agreement"), the Company was granted the right to appoint the entire board of managers (including one nominee of Liberty Media) of NTOP Holdings. The board of managers directs the voting of all Net2Phone shares held by NTOP Holdings, thereby giving the Company effective control over the voting of the Net2Phone shares (but not their disposition, which requires consent of the members) held by NTOP Holdings. However, the LLC Agreement also granted each owner of NTOP Holdings the unilateral right, effective January 1, 2004, to cause the immediate liquidation of NTOP Holdings. Accordingly, the Company's ability to control the voting power of Net2Phone will immediately terminate on January 1, 2004, the effective date of the liquidation rights.

In determining how to account for the Company's interest in Net2Phone through NTOP Holdings, the Company consulted Accounting Research Bulletin No. 51, *Consolidated Financial Statements* ("ARB 51"), as amended by Statement of Financial Accounting Standards No. 94, *Consolidation of All Majority-Owned Subsidiaries* ("SFAS 94"), which at that time prohibited a company from consolidating a controlled subsidiary if that control was likely to be temporary. Because the Company's control of Net2Phone would terminate upon the effectiveness of the members' unilateral liquidation rights, the Company decided that it should not consolidate Net2Phone during the approximately 26-month period (i.e., October 23, 2001 through December 31, 2003) that the Company would control Net2Phone (the "Control Period"), as the length of this period rendered the Company's control temporary. Instead, the Company continued to account for its investment in Net2Phone



through the end of Fiscal 2002 using the equity method.

Effective August 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which amended ARB 51 (as amended by SFAS 94) to eliminate the prohibition

Table of Contents**IDT CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

from consolidation for a controlled subsidiary for which control is likely to be temporary. As a result, the Company began consolidating Net2Phone effective August 1, 2002.

Subsequently, the Company reconsidered its initial interpretation of temporary control and reached the conclusion that the Control Period of approximately 26 months was too long to render the Company's control temporary. As such, the Company decided to restate its results for Fiscal 2002 to consolidate the results of Net2Phone for the period from October 23, 2001 through July 31, 2002.

The following table represents selected financial data as originally reported and as restated due to the restatement, as of and for the three and nine months ended April 30, 2002 (in thousands):

	Three Months Ended		Nine Months Ended	
	As originally reported	As restated	As originally reported	As restated
Revenues	\$401,653	\$ 419,447	\$1,114,887	\$1,152,947
Loss from operations	(42,829)	(182,412)	(83,168)	(281,722)
Net loss	(49,593)	(49,593)	(225,120)	(225,120)
			Nine Months Ended	
			As originally reported	As restated
Cash, cash equivalents and marketable securities (including restricted cash)			1,054,719	1,143,399
Working capital			881,127	887,122
Total assets			1,765,048	1,904,491
Total stockholders' equity			940,542	904,491
Net cash provided by (used in) operating activities			16,249	(27,823)
Net cash used in investing activities			(384,170)	(260,869)
Net cash provided by financing activities			29,819	28,470

Pursuant to the operating agreement of the LLC, AT&T received 29 Class A units of the LLC, and had the right to put 6 of these units to IDT and 23 of these units to Liberty Media after one year. On October 29, 2002, AT&T exercised its put rights and sold all of its Class A units to IDT and Liberty Media for a nominal amount. As a result of this transaction, AT&T is no longer a member of the LLC. IDT continues to hold the controlling membership interest in the LLC and is the managing member of the LLC. As of April 30, 2003, IDT's economic effective equity investment in Net2Phone (through the LLC) was 18.6%. Accordingly, the Company recorded in minority interests the 81.4% of Net2Phone's results attributable to the remaining shareholders of Net2Phone.

**Note 3—Stock-Based Compensation**

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, An Amendment of FASB Statement No. 123*. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of FASB Statement No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. During the third quarter of Fiscal 2003, the Company adopted the disclosure provisions of SFAS No. 148, effective as of the beginning of the fiscal year.

Table of Contents**IDT CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company continues to account for its employee stock options under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. The following table illustrates the effect on net loss and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2003	2002	2003	2002
	(in thousands, except per share data)			
Net loss, as reported	\$ (9,303)	\$ (49,593)	\$ (25,853)	\$ (225,120)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects and minority interests	8,397	2,445	9,974	3,517
Deduct: Total stock-based employee compensation expense determined under the fair value based method of accounting for all awards, net of related tax effects and minority interests	(17,641)	(8,402)	(31,510)	(20,083)
Pro forma net loss	<u>\$ (18,547)</u>	<u>\$ (55,550)</u>	<u>\$ (47,389)</u>	<u>\$ (241,686)</u>
Loss per share:				
Basic—as reported	\$ (0.12)	\$ (0.64)	\$ (0.32)	\$ (3.06)
Basic—pro forma	\$ (0.23)	\$ (0.72)	\$ (0.59)	\$ (3.28)
Diluted—as reported	\$ (0.12)	\$ (0.64)	\$ (0.32)	\$ (3.06)
Diluted—pro forma	\$ (0.23)	\$ (0.72)	\$ (0.59)	\$ (3.28)

**Note 4—Business Segment Information**

The Company has five reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, IDT Solutions, Internet Telephony, and IDT Media. The operating results of these business segments are distinguishable and are regularly reviewed by the Company's chief operating decision maker.

The Wholesale Telecommunications Services business segment consists of wholesale carrier services provided to other long distance carriers. The Retail Telecommunications Services business segment includes domestic and international prepaid, rechargeable and private label calling cards, and consumer long distance services to individuals and businesses. The IDT Solutions business segment, which commenced operations in December 2001 upon the acquisition of assets from Winstar Communications, Inc. and certain of its subsidiaries ("Old Winstar"), operates through Winstar Holdings, LLC as a competitive local exchange carrier ("CLEC") using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions. The Internet Telephony business segment reflects the results of the Company's reconsolidated subsidiary, Net2Phone, effective October 23, 2001, which is a provider of voice over Internet Protocol, or VoIP, telephony products and services. The IDT Media business segment operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

Table of Contents**IDT CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company evaluates the performance of its business segments based primarily on operating income (loss). All corporate overhead is allocated to the business segments based on time and usage studies, except for certain specific corporate costs, such as corporate management compensation, treasury management and public relations, and corporate legal, insurance and governance costs, which are not allocated to the business segments. Operating results presented for the principal business segments of the Company are as follows (in thousands):

	Wholesale Telecommunications Services	Retail Telecommunications Services	IDT Solutions (1)	Internet Telephony	IDT Media	Corporate	Total
<b>Three Months Ended April 30, 2003</b>							
Revenues	\$ 109,156	\$ 299,865	\$ 20,766	\$ 19,585	\$ 5,498	\$ —	\$ 454,870
Segment operating income (loss)	(6,081)	21,761	(19,625)	(9,830)	(2,278)	(21,846)	(37,899)
<b>Three Months Ended April 30, 2002</b>							
Revenues	73,236	285,436	33,095	23,521	4,159	—	419,447
Segment operating income (loss)	(6,540)	19,079	(43,863)	(139,583)	(5,003)	(6,502)	(182,412)
<b>Nine Months Ended April 30, 2003</b>							
Revenues	\$ 288,178	\$ 914,870	\$ 65,933	\$ 63,357	\$ 16,470	\$ —	\$ 1,348,808
Segment operating income (loss)	(22,708)	66,060	(67,493)	25,672	(6,406)	(39,392)	(44,267)
<b>Nine Months Ended April 30, 2002</b>							
Revenues	206,616	825,503	52,269	52,953	15,606	—	1,152,947
Segment operating income (loss)	(25,349)	42,001	(62,996)	(198,554)	(17,234)	(19,590)	(281,722)

- (1) IDT acquired the assets currently held by Winstar (through which the IDT Solutions segment operates) in December 2001. Accordingly, results of operations for the nine months ended April 30, 2002 for the IDT Solutions segment reflect only the period that the Company owned and operated the Winstar assets.

**Note 5—Earnings Per Share**

The Company computes earnings per share under the provisions of SFAS No. 128, *Earnings per Share*. Under the provisions of SFAS No. 128, basic earnings per share is computed by dividing net income (loss) applicable to common shareholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased assuming exercise of potentially dilutive stock options and contingently issuable shares using the treasury stock method, unless the effect of such increase would be anti-dilutive. For the periods reported in the condensed consolidated financial statements included in this report, the diluted earnings per share amounts equal basic earnings per share because the Company had net losses and the impact of the assumed exercise of stock options and contingently issuable shares would have been anti-dilutive.

**Note 6—Comprehensive Loss**

The Company's comprehensive loss consists of the following (in thousands):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2003	2002	2003	2002
Net loss	\$ (9,303)	\$ (49,593)	\$ (25,853)	\$ (225,120)
Foreign currency translation adjustments	(406)	3,977	(654)	(1,689)

Unrealized losses in available-for-sale securities	(1,566)	(489)	(1,040)	(564)
Comprehensive loss	<u>\$(11,275)</u>	<u>\$(46,105)</u>	<u>\$(27,547)</u>	<u>\$(227,373)</u>

**Note 7—Winstar Acquisition**

On December 19, 2001, the Company, through a subsidiary, acquired the core domestic telecommunications assets of Old Winstar in connection with Old Winstar's bankruptcy proceedings pending before the United States Bankruptcy Court for the District of Delaware. The acquiring subsidiary was subsequently renamed Winstar Holdings, LLC. Winstar operates as a CLEC using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions. The Company currently offers the Winstar services under the name IDT Solutions.

Table of Contents**IDT CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The purchase price for the Old Winstar assets consisted of \$30.0 million in cash, \$12.5 million in newly issued shares of IDT Class B common stock and 5% of the common equity interests in Winstar (the remaining 95% of the common equity interests as well as all of the preferred equity interests in Winstar were owned by IDT). The acquisition was accounted for under the purchase method of accounting. The results of operations of Winstar have been included in the Company's consolidated statements of operations since the date of acquisition.

On April 16, 2002, IDT, through a subsidiary, purchased the 5% of common equity interests in Winstar that it did not own. Consideration consisted of 0.8 million shares of IDT Class B common stock, which were valued at \$13.3 million.

The following pro forma financial information presents the combined results of operations of IDT and Winstar, as if the Old Winstar asset acquisition had occurred as of August 1, 2001, after giving effect to certain adjustments, including depreciation expense, income taxes and the issuance of IDT Class B common stock as part of the purchase price. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had IDT and Winstar been a single entity during such periods.

	Three Months Ended April 30, 2002	Nine Months Ended April 30, 2002
Revenues	\$ 419,447	\$ 1,225,647
Loss before cumulative effect of accounting change	\$ (49,593)	\$ (158,616)
Net loss	\$ (49,593)	\$ (305,599)
Loss per share:		
Loss before cumulative effect of accounting change		
Basic	\$ (0.64)	\$ (2.12)
Diluted	\$ (0.64)	\$ (2.12)
Net loss		
Basic	\$ (0.64)	\$ (4.09)
Diluted	\$ (0.64)	\$ (4.09)
Weighted-average number of shares used in calculation of loss per share:		
Basic	77,334	74,747
Diluted	77,334	74,747

**Note 8—Amendment of Stock Options**

On April 25, 2003, all then outstanding stock options exercisable for shares of the Company's common stock (which were exercisable for an aggregate of 1.9 million shares) were amended to instead be exercisable for an equal number of shares of the Company's Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. As a result, the Company recorded a non-cash compensation charge for the three and nine months ended April 30, 2003 of \$13.7 million for the modification of the options.

On April 25, 2003, the Board of Directors also authorized that shares of Class B common stock held as treasury stock be allocated for issuance in connection with the above stock option amendments.

**Note 9—Recently Issued Accounting Pronouncements**

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments Hedging Activities*. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133; in connection with other FASB projects dealing with financial instruments; and regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components.



SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 amends certain other existing pronouncements. These changes



Table of Contents**IDT CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting.

The provisions of this standard are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments consists of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

In addition to requirements for classification and measurement of financial instruments, SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

In January 2003, the FASB issued Interpretation No. 46, (FIN 46) "*Consolidation of Variable Interest Entities*." FIN 46 requires a company to consolidate a variable interest entity ("VIE"), as defined, when the company will absorb a majority of the variable interest entity's expected losses, receive a majority of the variable interest entity's expected residual returns, or both. FIN 46 also requires consolidation of existing, non-controlled affiliates if the VIE is unable to finance its operations without investor support, or where the other investors do not have exposure to the significant risks and rewards of ownership. FIN 46 applies immediately to a VIE created or acquired after January 31, 2003. For a VIE acquired before February 1, 2003, FIN 46 applies in the first fiscal year or interim period beginning after June 15, 2003. The Company has completed its assessment of the impact of FIN 46 and does not believe that its adoption will have a material impact on the Company.

**Note 10—Legal Proceedings**

Certain legal proceedings in which the Company is involved are described in the Company's Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarter ended January 31, 2003. The following discussion is limited to recent developments concerning the Company's legal proceedings and should be read in conjunction with such earlier Quarterly Report. Unless otherwise indicated, all legal proceedings discussed in the Company's earlier Quarterly Report remain outstanding.

With respect to the Company's complaint against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc., the Company filed a motion on May 16, 2003 to compel the defendants to produce documents under the crime-fraud exception of the attorney-client and work product privilege. Oral argument on this motion is scheduled for August 7, 2003.

With respect to the Company's statement of claim with the American Arbitration Association naming Telefonica Internacional, S.A. as the Respondent, the parties filed post-hearing briefs on April 4, 2003 and reply briefs were filed on May 8, 2003.

With respect to the summons and complaint filed on or about July 25, 2002 by PT-1 Communications against the Company, the parties held a status conference before the judge on April 3, 2003. The Company filed a motion for a stay to enjoin this proceeding based upon a filing by The Continuing Creditors' Committee of Star Telecommunications, Inc. of a near-identical adversary proceeding against the Company in the United States Bankruptcy Court for the District of Delaware. The motion

was denied on May 15, 2003.

**Table of Contents****IDT CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

With respect to the complaint filed by Mark B. Aronson in the Court of Common Pleas of Allegheny County, Pennsylvania, seeking certification of a class consisting of consumers who were charged a fee when IDT switched underlying carriers from Global Crossing Ltd. to AT&T, the Court denied the plaintiff's motion to remand the case to the State court and granted the Company's motion to transfer the case to the Federal Communications Commission (the "FCC"). The Company filed a petition with the FCC on April 30, 2003.

With respect to the Morris Amsel and the Ana Cardoso and Maria Calado matters relating to the Company's calling cards, on May 19, 2003 the Company filed an application with the Multi-District Litigation Panel seeking to consolidate these matters.

With respect to the suit filed by Winstar against Superior Logistics Management Services, Inc. in the U.S. District Court for the Eastern District of Virginia, the parties entered into a settlement agreement that entitles Winstar to receive 10% of the sales price of any sales of certain equipment by Superior, and provides Winstar with purchase options at 6 and 9 months from May 7, 2003 for various equipment that was the subject of the suit and stored by Superior, at the price of \$0.035 per \$1.00 of the original cost to Superior or its entities that are now in Chapter 7 bankruptcy.

With respect to the Univance Telecommunications, Inc. and Univance Marketing Group, Inc. (collectively the "Univance Debtors") bankruptcy matter, the parties resolved this matter and the Univance Debtors and Winstar entered into an agreement dated March 19, 2003, pursuant to which the Univance Debtors will continue to provide services to Winstar. The parties will seek Bankruptcy Court approval of the agreement.

On or about February 5, 2002, a complaint was filed by Solomon Bitton against the Company in the Superior Court of the State of New Jersey, Bergen County, seeking certification of a class consisting of New Jersey residents who allegedly purchased the Company's pre-paid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The damages sought have not yet been quantified. The Company served answers to the complaint on April 3, 2003 and are in the process of providing initial discovery responses.

On or about March 12, 2003, a complaint was filed by the Continuing Creditors' Committee of Star Telecommunications, Inc. for itself and on behalf of the Star Creditors' Liquidating Trust ("Star") against the Company in the United States Bankruptcy Court for the District of Delaware. Star seeks (a) to void and recover damages for certain fraudulent transfers of property of Star's bankruptcy estate pursuant to the pre-petition sale of certain assets to the Company, and (b) to recover damages for unjust enrichment pursuant to said sale. The Company has not been served with the complaint and Star has not taken any action to prosecute the claims against the Company. The Company filed a motion for a stay or to enjoin this proceeding based upon the fact that this proceeding is nearly-identical to the adversary proceeding previously filed by PT-1 Communications against the Company in the United States Bankruptcy Court for the Eastern District of New York, which motion was denied.

On April 15, 2003, Network Communications of Indiana ("NCI") filed a four-count complaint in the Superior Court in Marion County, Indiana, against the Company, seeking \$8.7 million in damages. NCI signed a Non-Exclusive High Volume Independent Agent Marketing Agreement with Winstar Wireless, Inc., on February 1, 1999. On April 18, 2001, Winstar Wireless, Inc., and various other affiliates ("Debtors") filed for Chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Delaware. On December 19, 2001, an affiliate of the Company purchased various assets of the Debtors. NCI alleges that the Company, as a result of allegedly acquiring certain assets of the Debtor including alleged network customer lists: (a) misappropriated NCI's customer lists, (b) unlawfully converted NCI's customer lists, (c) unfairly competed with NCI's business, and (d) tortiously interfered with contracts between NCI and NCI's customers. The case has been removed to the United States District Court for the Southern District of Indiana, Indianapolis Division, and the Company has an extension to answer or otherwise plead until June 23, 2003.

On or about April 26, 2003, the Company was served with a petition filed by Powell Palmares in the District Court of Nueces County, Texas, 105th Judicial District. The Company is not the only defendant in this action. In his petition, the plaintiff names numerous additional defendants, including Oblio Telecom, Northern California Telecommunications, Locus Telecommunications, Star Telecom Network, Astral Communications, Pacific Telecard, and Advanced Telecom Solutions. The plaintiff is seeking certification of a class consisting of all persons in Texas who allegedly purchased and used IDT's pre-paid calling cards and made calls to, or from, cellular telephone equipment. The damages sought have not yet been quantified. The Company filed its answer on June 2, 2003.

The Company is subject to other legal proceedings and claims, which arise in the ordinary course of our business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of the Company's management,

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such proceedings, as well as the aforementioned actions, will not have a material adverse effect on the Company's results of operations, cash flows or financial condition.

**Note 11—Settlement by Net2Phone of Litigation**

On March 19, 2002, Net2Phone and its ADIR Technologies, Inc. subsidiary filed suit in the United States District Court for the District of New Jersey against Cisco Systems, Inc. and a Cisco executive who had been a member of ADIR's board of directors. The suit arose out of the relationships that had been created in connection with Cisco's and Net2Phone's original investments in ADIR and out of ADIR's subsequent purchase of NetSpeak, Inc. in August 2001. Net2Phone and ADIR settled the suit and all related claims against Cisco and the Cisco executive in exchange for: (i) the transfer, during the first quarter of Fiscal 2003, to Net2Phone of Cisco's and Softbank Asia Infrastructure Fund's respective 11.5% and 7.0% interests in ADIR, and (ii) the payment by Cisco, during such quarter, of \$19.5 million to Net2Phone and ADIR. As a result of this settlement, Net2Phone recognized for the quarter ended October 31, 2002, a gain of \$58.4 million consisting of (i) a \$38.9 million reduction in minority interests as a result of the transfer of the ADIR shares and (ii) the receipt of settlement proceeds of \$19.5 million. During the second quarter of Fiscal 2003, Net2Phone approved and therefore recorded an additional \$0.4 million in executive compensation expense directly related to the Cisco settlement.

**Note 12—Restructuring, Severance and Impairment Charges**

Restructuring, severance and impairment charges were \$1.7 million and \$9.0 million for the three and nine months ended April 30, 2003 compared to \$114.4 million and \$138.4 million for the three and nine months ended April 30, 2002, respectively.

*First Quarter 2003 Restructuring*

On October 24, 2002, Net2Phone announced that it was consolidating certain business operations. This consolidation reduced Net2Phone's staff by approximately 20%, or about 55 employees. As a result of this restructuring, Net2Phone incurred severance charges of \$3.2 million, primarily relating to the consolidation in the first quarter of Fiscal 2003 of its development and support organizations. In addition, Net2Phone recorded \$1.9 million of asset impairment charges, and \$1.8 million of costs to exit various locations and cancel network buildouts. These costs were partially offset by Net2Phone's reversal of a reserve for cancellation charges, which was reduced as a result of successful settlement negotiations with certain vendors.

*November 2001 Restructuring*

In November 2001, Net2Phone announced plans to restructure its operations, which included the elimination of various lines of development business related to Voice Hosting products and Enterprise products, the relocation of certain facilities, and a reduction in workforce by approximately 270 employees. As a result of this restructuring, during the nine months ended April 30, 2002, Net2Phone incurred charges of \$0.9 million related to the write down of certain assets and a litigation-related reserve, \$6.2 million related to employee terminations, \$1.9 million related to the reduction of operations at various locations, and \$1.3 million related to the cancellation of various equipment and network build out costs.

*February 2002 Restructuring*

In February 2002, Net2Phone's ADIR subsidiary announced a reduction of workforce by 60 employees, resulting in a charge of approximately \$1.4 million. Also in February 2002, Net2Phone announced plans to reduce its workforce by 85 employees or approximately 28% resulting in a charge of approximately \$3.5 million.

*April 2002 Restructuring*

In April 2002, Net2Phone announced plans to further reduce its workforce by 20 employees. Net2Phone scaled back its technical development team, which had been working on projects related to the restructured businesses. Net2Phone recorded severance of approximately \$0.9 million related to this additional workforce reduction.

*Impairment of Long-lived and Intangible Assets*

An impairment charge of \$83.9 million was recognized by Net2Phone during the third quarter of Fiscal 2002 when it determined that the future undiscounted cash flows of its long-lived assets were estimated to be insufficient to recover their related carrying values. As such, the carrying values of these assets were written down to their estimated fair value, estimated



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using the present value of expected future cash flows. Additionally, during the third quarter of fiscal 2002, as a result of the significant reduction in ADIR's workforce, the goodwill for ADIR's software sales reporting unit was tested for impairment and, as a result, a goodwill impairment loss of \$11.5 million was recognized by Net2Phone. The fair value used to measure the impairment was estimated using the present value of expected future cash flows. Also during the third quarter of Fiscal 2002, as a result of Net2Phone's plan to restructure its operations and eliminate various lines of development, an impairment review of Net2Phone's long-lived assets and identifiable intangible assets was conducted as of April 30, 2002. As a result of this analysis, Net2Phone recorded impairment charges of approximately \$2.0 million related to customer lists, \$0.5 million related to technology and \$1.7 million related to developed product technology assets. The impairment charge was calculated as the amount by which the carrying amount of the assets exceeded their fair values, estimated using the present value of expected future cash flows.

*Separation Agreements*

As a result of separation agreements entered into in Fiscal 2002 with Net2Phone's former Chief Executive Officer and Chief Financial Officer, Net2Phone incurred charges of \$1.0 million and \$3.0 million during the three and nine months ended April 30, 2003, respectively, and \$0.8 million and \$11.7 million during the three and nine months ended April 30, 2002, respectively. Net2Phone expects to incur future charges of approximately \$1.8 million relating to these separation agreements.

**Note 13—Gain on Sale of Subsidiary Stock**

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88,235 newly-issued shares of IDT Media's Class A common stock, at a price of \$283,334 per share, representing an aggregate cash purchase price of \$25.0 million. IDT Media operates several media and entertainment-related businesses, most of which are currently in the early stages of development. As a result of this sale of subsidiary stock, the Company's ownership percentage in IDT Media decreased from 100% to 94.4%.

The Company has historically accounted for sales of stock of its subsidiaries in accordance with Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*, which permits the Company to record the excess of its carrying value in the equity of its subsidiaries as a gain. Accordingly, in connection with this sale, the Company recognized a gain of \$22.4 million. Deferred taxes of \$9.0 million have been provided on the gain.



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### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information should be read in conjunction with the accompanying condensed consolidated financial statements and the associated notes thereto of this Quarterly Report, and the audited consolidated financial statements and the notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K/A (Amendment No. 1) for the year ended July 31, 2002, as filed with the United States Securities and Exchange Commission.

As used below, unless the context otherwise requires, the terms "the Company," "IDT," "we," "us," and "our" refer to IDT Corporation, a Delaware corporation, its predecessor, International Discount Telecommunications, Corp., a New York corporation, and their subsidiaries, collectively.

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q/A (Amendment No. 3), including the notes to the condensed consolidated financial statements, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words "believes," "anticipates," "expects," "plans," "intends," and similar words and phrases. Such forward-looking statements include, among other things, our plans to implement our growth strategy, improve our financial performance, expand our infrastructure, develop new products and services, expand our sales force, expand our customer base and enter international markets, and the possible outcome of our litigation. Such forward-looking statements also include our expectations concerning factors affecting the markets for our products and services, such as changes in the U.S. and the international regulatory environment and the demand for long-distance telecommunications. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statements. These risks and uncertainties include, but are not limited to, those risks discussed in this report. In addition to the factors specifically noted in the forward-looking statements, other important factors that could result in those differences include: potential declines in prices for our products and services; our ability to maintain and grow our retail telecommunications services, particularly our prepaid calling card business; availability of termination capacity; financial stability of our customers; our ability to maintain carrier agreements with foreign carriers; effectiveness of our marketing and distribution efforts; increased competition, particularly from regional bell operating companies; our ability to manage our growth; competitiveness of our Winstar subsidiary; impact of government regulation; our ability to obtain telecommunications products or services required for our products and services; general economic conditions, particularly in the telecommunications markets; and the other factors set forth in our Annual Report on Form 10-K/A (Amendment No. 1) for Fiscal 2002. The forward-looking statements are made as of June 16, 2003, the date of filing of the original Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2003, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth herein and the other information set forth from time to time in our reports filed with the United States Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our Annual Report on Form 10-K/A (Amendment No. 1) for Fiscal 2002.

#### **Overview**

##### *General*

IDT Corporation, through our IDT Telecom segment, provides telecommunications services and products to retail and wholesale customers worldwide, including prepaid, private label and rechargeable calling cards, wholesale carrier services and consumer long distance services. We deliver our telecommunications services over a network consisting of more than 200 switches in the United States, Europe and South America. We also own and lease capacity on 16 undersea fiber-optic cables that connect our U.S. facilities with our international facilities and with third-party facilities in Europe, Latin America and Asia. We derive a majority of our revenues from IDT Telecom.

Our Winstar segment, which operates under the name IDT Solutions, offers broadband and telephony services to commercial and governmental customers through its fixed-wireless and fiber infrastructure. We also operate, through our IDT Media segment, several media and entertainment-related businesses, most of which are currently in the early stages of development. IDT Media primarily comprises five business lines: radio, animation, brochure distribution, video-to-desktop delivery, and call center services. Effective October 23, 2001, we reconsolidated Net2Phone, which is a provider of voice over Internet Protocol, or VoIP, telephony products and services.



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### *Outlook*

In recent years, we have derived the majority of our revenues from IDT Telecom's businesses, consisting primarily of our Retail Telecommunications Services segment, which markets prepaid, private label and rechargeable calling cards and consumer long distance services, and our Wholesale Telecommunications Services segment, which markets wholesale carrier services. These businesses have accounted for the bulk of our operating expenses as well (excluding restructuring, severance and impairment charges).

Throughout the remainder of Fiscal 2003, we anticipate increased growth in our wholesale carrier revenues. We anticipate growth in IDT Telecom's Retail Telecommunications Services revenues as well, and we expect Retail Telecommunications Services revenues to continue to account for approximately 70%-75% of IDT Telecom's total revenues in the coming quarters.

The worldwide telecommunications industry has been characterized in recent years by intense price competition, which has resulted in a significant decline in both our average per-minute price realizations and our average per-minute termination costs. Therefore, although IDT Telecom's minutes of use have been increasing strongly, IDT Telecom's revenues have increased at a much slower rate. We expect to see some further price declines throughout the remainder of Fiscal 2003, as the markets in which we compete have generally remained competitive.

Since our acquisition of the Winstar assets in December 2001, the IDT Solutions segment has experienced working capital deficits. We have restructured Winstar's operations by undertaking significant cost saving measures, including the downsizing of the Winstar network and a significant reduction in headcount, aimed at reducing the working capital deficit. However, at this time, we expect IDT Solutions to continue to generate operating losses and to require funding for its capital expenditure needs for the foreseeable future. We expect IDT Solutions to continue to reduce its operating losses throughout the remainder of Fiscal 2003, aided by a combination of increased revenues and continued cost saving measures.

We have also been developing various new businesses within our IDT Media segment. We anticipate that IDT Media will continue to incur significant costs related to its existing and other new businesses. The timing and magnitude of further revenues and/or operating profits from these new businesses remains uncertain. In May 2003, IDT Media's Digital Production Solutions unit (which operates IDT Media's animation business line) acquired a controlling interest in Film Roman, Inc., an independent animation company, through the purchase of newly issued shares of Film Roman common stock. For the year ended December 31, 2002, Film Roman reported revenues of \$43.3 million and a net loss of \$8.6 million. In the upcoming quarters, the results of operations of our IDT Media segment will include the consolidation of Film Roman.

### **Critical Accounting Policies**

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States. Preparing condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in

Note 1 to the July 31, 2002 consolidated financial statements included in our Form 10-K/A (Amendment No. 1). Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies for us include revenue recognition, allowance for doubtful accounts, goodwill, and valuation of long-lived and intangible assets. For additional discussion of our critical accounting policies, see our Management's Discussion & Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K/A (Amendment No. 1) for Fiscal 2002.

### **Three Months Ended April 30, 2003 Compared to Three Months Ended April 30, 2002**

In order to enable a straightforward comparison between the three and nine months of Fiscal Year 2003 and the three and nine months of Fiscal Year 2002, and to provide a better understanding of IDT's core operating results for the three and nine months of Fiscal Year 2003, this Form 10-Q/A presents, as additional information, some financial figures excluding the IDT Solutions segment and Net2Phone. The Winstar assets, through which our IDT Solutions segment operates, were acquired during the second quarter of Fiscal Year 2002, and contributed to revenues for only part of that quarter, and Net2Phone was not consolidated for the majority of the first quarter of Fiscal Year 2002.

As discussed in Note 2 to the condensed consolidated financial statements, we have restated our 2002 financial statements to consolidate Net2Phone effective October 23, 2001.

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**Table of Contents****Results of Operations**

We evaluate the performance of our operating business segments based primarily on income (loss) from operations. Accordingly, certain adjustments are properly not reflected in the operating business segments discussions, but are only reflected in our Consolidated discussion.

***Consolidated***

*Revenues.* Our revenues increased 8.4%, from \$419.5 million in the three months ended April 30, 2002 to \$454.9 million in the three months ended April 30, 2003. The increase in our consolidated revenues is mainly attributable to a 14.0% increase in IDT Telecom's revenues, driven by the significant growth in minutes of use. IDT Telecom's minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network) grew 43.3% from 3.0 billion in the three months ended April 30, 2002 to 4.3 billion in the three months ended April 30, 2003.

*Direct Cost of Revenues.* Direct cost of revenues increased by 7.4%, from \$323.1 million in the three months ended April 30, 2002 to \$347.1 million in the three months ended April 30, 2003. The increase is due primarily to the growth in our telecommunications minutes of use. As a percentage of total revenues, direct costs decreased from 77.0% in the three months ended April 30, 2002 to 76.3% in the three months ended April 30, 2003. The decline in direct costs as a percentage of revenues is attributable to overall higher revenues due to the growth of minutes-of-use and because of continued operating efficiency gains and lower prices from suppliers.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased 20.2%, from \$131.5 million in the three months ended April 30, 2002 to \$105.0 million in the three months ended April 30, 2003. The decrease is due primarily to continuing cost management initiatives and elimination of certain expenses directly related to the restructurings of Net2Phone's operations that were announced during Fiscal 2002 and October 2002. As a percentage of total revenues, selling, general and administrative expenses decreased from 31.4% in the three months ended April 30, 2002 to 23.1% in the three months ended April 30, 2003. Selling, general and administrative expense declined as a percentage of revenues due primarily to the significant growth in our revenues for the three months ended April 30, 2003.

We anticipate that selling, general and administrative expenses will increase in dollar terms in the future, and will continue to be a significant percentage of total revenues, as we expand both IDT Telecom's businesses and our Media businesses.

*Depreciation and Amortization.* Depreciation and amortization expense decreased 6.3%, from \$23.8 million in the three months ended April 30, 2002 to \$22.3 million in the three months ended April 30, 2003. The decrease is primarily due to the lower asset base as a result of the impairment charge for long-lived assets recognized by Net2Phone during the quarter ended April 30, 2002. As a percentage of revenues, depreciation and amortization expense decreased from 5.7% in the three months ended April 30, 2002 to 4.9% in the three months ended April 30, 2003. Depreciation and amortization expense decreased, as a percentage of revenues, due to the significant growth in our IDT Telecom revenues offset by the expansion of our telecommunications network infrastructure and facilities. We anticipate that depreciation expense will continue to increase in absolute dollars, as we continue to add to our asset base, particularly in IDT Telecom's businesses, as we implement our growth strategy.

*Non-cash Compensation.* Non-cash compensation charges were \$9.1 million in the three months ended April 30, 2002, compared to \$16.6 million in the three months ended April 30, 2003. Refer to the respective sections of the IDT Telecom, IDT Solutions, Internet Telephony and Corporate segments for a full discussion on non-cash compensation charges.

*Restructuring, Severance and Impairment Charges.* Restructuring, severance and impairment charges were \$114.4 million in the three months ended April 30, 2002 compared to \$1.7 million in the three months ended April 30, 2003. Refer to the respective section of the Internet Telephony segment for a full discussion on restructuring, severance and impairment charges.

*Loss from Operations.* Our loss from operations was \$182.3 million in the three months ended April 30, 2002, compared to \$37.9 million in the three months ended April 30, 2003. The reduction in our loss from operations was due primarily to IDT Telecom's increased revenues and gross margins, partially offset by one-time non-cash compensation charges, and also due to Net2Phone's significant restructuring, severance and impairment charges recorded in Fiscal 2002.

*Interest.* Net interest income was \$4.5 million in the three months ended April 30, 2002, compared to net interest income of \$6.7 million in the three months ended April 30, 2003.

*Other Income (Expense).* Other income (expense) amounted to an expense of \$4.4 million in the three months ended April

30, 2002, compared to income of \$12.0 million in the three months ended April 30, 2003. Included in other income (expense) in the three months ended April 30, 2003, was a charge of \$1.6 million related to an obligation to guarantee to AT&T

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the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling \$8.8 million.

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88,235 newly-issued shares of IDT Media's Class A common stock, at a price of \$283,334 per share, representing an aggregate cash purchase price of \$25.0 million. As a result of this sale of subsidiary stock, our ownership percentage in IDT Media decreased from 100% to 94.4%. In connection with this sale, we recognized a gain of \$22.4 million during the three months ended April 30, 2003.

Included in other expense in the three months ended April 30, 2002 was a \$2.2 million charge related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling \$2.2 million.

*Minority Interests.* Minority interests were \$111.5 million of income and \$1.0 million of expense for the three months ended April 30, 2002 and 2003, respectively. The \$112.5 million increase in minority interest income was primarily attributable to the significant minority interest in Net2Phone, of which we owned 18.6% and 20.1% as of April 30, 2003 and 2002, respectively. Accordingly, we recorded in minority interests the 81.4% and 79.9% of Net2Phone's results attributable to the remaining shareholders of Net2Phone during the three months ended April 30, 2003 and 2002, respectively.

*Income Taxes.* We recorded an income tax benefit of \$21.2 million in the three months ended April 30, 2002, compared to an income tax benefit of \$10.8 million in the three months ended April 30, 2003.

*Net Loss.* Our consolidated net loss was \$49.6 million in the three months ended April 30, 2002 compared to a consolidated net loss of \$9.3 million in the three months ended April 30, 2003. The recording of a net loss in the three months ended April 30, 2003 and 2002 was a result of the combined factors for each of the segments discussed below, as well as those items detailed above.

***IDT Telecom—Retail Telecommunications Services and Wholesale Telecommunications Services Segments***

*Revenues.* IDT Telecom's revenues increased 14.0%, from \$358.7 million in the three months ended April 30, 2002 to \$409.0 million in the three months ended April 30, 2003.

IDT Telecom's revenues increased primarily as a result of a 43.3% growth in minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network) from 3.0 billion in the three months ended April 30, 2002 to 4.3 billion in the three months ended April 30, 2003. IDT Telecom experienced growth in minutes of use in both its Retail Telecommunications Services and Wholesale Telecommunications Services segments, in both the U.S. and international operations. IDT Telecom's minutes of use grew at a faster rate than did its revenues, reflecting a decline in its average revenue-per-minute, from \$0.110 during the three months ended April 30, 2002 to \$0.084 in the three months ended April 30, 2003. IDT Telecom's decrease in its average revenue-per-minute is due to a number of factors, including (i) continued competition in both retail and wholesale markets, and (ii) introduction of new calling cards.

Revenues from IDT Telecom's Retail Telecommunications Services segment increased 5.1%, from \$285.4 million in the three months ended April 30, 2002 to \$299.9 million in the three months ended April 30, 2003. Of this total growth of 5.1%, 2.1% came as a result of increased sales of cards and 3.0% came as a result of higher consumer long distance revenues. As a percentage of IDT Telecom's overall revenue, Retail Telecommunications Services' revenues decreased from 78.3% in the three months ended April 30, 2002 to 73.3% in the three months ended April 30, 2003, as revenues from our Wholesale Telecommunications Services segment grew at a faster rate than did our retail businesses revenues. IDT Telecom's calling card sales increased 2.1%, from \$255.3 million in the three months ended April 30, 2002 to \$260.7 million in the three months ended April 30, 2003. This increase was primarily generated by the introduction of several new calling cards. A new card is generally introduced with attractive low per-minute pricing, which is gradually increased as the card gains acceptance and builds market share. The increase in new card introductions was part of IDT's plan to aggressively seek market share in both its traditional Northeast U.S. markets, as well as in several other key areas, such as California, Florida and Texas. In addition, the growth in our calling card revenues resulted from the expansion of our distribution network beyond our traditional Northeastern U.S. territory, as well as the continued strong growth of European operations, both in our U.K. market as well as in other markets such as Spain, Germany and the Netherlands. Throughout the quarter, several of the recently-launched cards entered the higher-margin, more profitable stages of their lifecycles, resulting in higher overall calling card margins in the United States, when compared to the second quarter of Fiscal 2003.

Calling card sales as a percentage of IDT Telecom's Retail Telecommunications Services revenues decreased from 89.5% in the three months ended April 30, 2002 to 86.9% in the three months ended April 30, 2003, as revenues from consumer long

distance services grew at a faster rate than did calling card revenues. Revenues from consumer long distance services, in which we act as a switchless reseller of another company's network, experienced significant growth in the three months ended April 30, 2003, with revenues increasing 31.3%, from \$29.7 million in the three months ended April 30, 2002 to \$39.0 million in the three

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months ended April 30, 2003. The consumer long distance revenue increase is attributable to the continued growth of our flat rate, \$0.05 a minute long distance calling plan, which has been driven by increased marketing expenditures, resulting in a significant increase in the number of consumer long distance customers. At April 30, 2003, we had approximately 622,000 active customers for our consumer long distance services, compared to approximately 409,000 customers at April 30, 2002. Beginning in early Fiscal 2003, we significantly increased the marketing and advertising expenditures of our consumer long distance business, in an attempt to accelerate the growth of our customer base. These expenditures, while reducing consumer long distance operating profits in the near term, are expected to lead to a rise in the number of active customers, revenues and profits over the longer term. In addition, as our customer base has grown, we have begun to place an increased emphasis on customer retention initiatives. Accordingly, our marketing efforts for our consumer long distance business is now focused on customer retention and increasing the average revenue per customer, in addition to attracting new customers.

Revenues from IDT Telecom's other Retail Telecommunications Services businesses, consisting primarily of call reorigination services, amounted to \$0.5 million in the three months ended April 30, 2002, versus \$0.2 million in the three months ended April 30, 2003.

IDT Telecom's Wholesale Telecommunications Services revenues increased 49.2%, from \$73.2 million in the three months ended April 30, 2002 to \$109.2 million in the three months ended April 30, 2003. As a percentage of IDT Telecom's total revenues, Wholesale Telecommunications Services revenues increased from 20.4% in the three months ended April 30, 2002 to 26.7% in the three months ended April 30, 2003. The increase in revenues resulted from the growth in wholesale carrier minutes, despite a significant decline in the average revenue-per-minute. In recent years, IDT Telecom's wholesale carrier business has curtailed or ceased completely its sales to financially unstable carriers. During the three months ended April 30, 2003, IDT Telecom continued to rebuild its customer base through the addition of new customers and by increasing sales to its larger, more financially stable customers. Increased sales to international telecom carriers accounted for the bulk of the growth in revenues and gross profits during the quarter.

*Direct Cost of Revenues.* Direct cost of revenues for IDT Telecom increased 16.9%, from \$270.5 million in the three months ended April 30, 2002 to \$316.1 million in the three months ended April 30, 2003, due to the higher revenue and minutes base. As a percentage of total IDT Telecom's revenues, direct costs increased to 77.3% in the three months ended April 30, 2003, from 75.4% in the three months ended April 30, 2002. The increase in direct costs as a percentage of total revenues is attributable to the competitive pricing environment within the telecommunications industry, which resulted in lower revenue per minute price realizations.

*Selling, General and Administrative.* IDT Telecom's selling, general and administrative expenses decreased 1.9%, from \$62.6 million in the three months ended April 30, 2002 to \$61.4 million in the three months ended April 30, 2003. As a percentage of IDT Telecom's total revenues, selling, general and administrative expenses were 17.5% in the three months ended April 30, 2002, compared to 15.0% in the three months ended April 30, 2003. IDT anticipates that selling, general and administrative expenses will remain steady, in absolute dollar terms, over the next few quarters, and should therefore represent a smaller percentage of revenues, as overall revenues increase.

*Depreciation and Amortization.* IDT Telecom's depreciation and amortization expense rose 20.0%, from \$13.0 million in the three months ended April 30, 2002, to \$15.6 million in the three months ended April 30, 2003, reflecting the continued expansion of our fixed asset base, as we invest to accommodate our current and anticipated future growth. As a percentage of IDT Telecom's total revenues, depreciation and amortization expense was 3.8% in the three months ended April 30, 2003 compared to 3.6% in the three months ended April 30, 2002.

*Non-cash Compensation.* IDT Telecom recorded non-cash compensation of \$0.2 million in the three months ended April 30, 2003, relating to stock options granted to certain non-employee consultants.

*Income from Operations.* IDT Telecom recorded income from operations of \$12.5 million in the three months ended April 30, 2002, compared to income from operations of \$15.7 million in the three months ended April 30, 2003. The increase in income from operations resulted primarily from the revenue growth and improved gross margins.

### **IDT Solutions Segment**

*Revenues.* Revenues from IDT Solutions decreased 37.2%, from \$33.1 million in the three months ended April 30, 2002 to \$20.8 million in the three months ended April 30, 2003. The third fiscal quarter of 2002 marked the first full quarter of IDT's ownership of IDT Solutions. Since the acquisition of the Winstar assets in December 2001, IDT has significantly restructured and downsized the acquired business including the discontinuation of certain product lines and the exiting of certain geographic locations. These decisions accounted in large part for the decline in revenues versus the prior year.



Throughout the remainder of Fiscal 2003, IDT Solutions will continue to focus its sales force towards targeting small and medium sized businesses, which are concentrated within IDT Solutions' footprint of 3,000 provision-ready buildings (i.e.,

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buildings in which IDT Solutions' technology is currently deployed). IDT Solutions will also continue to target Fortune 500 companies, as well as the various civilian and defense agencies of the U.S. government. IDT Solutions will also be developing an agent channel to support its existing sales force initiatives.

*Direct Cost of Revenues.* Direct cost of revenues for IDT Solutions decreased 50.8%, from \$42.1 million in the three months ended April 30, 2002 to \$20.7 million in the three months ended April 30, 2003. The decrease in direct cost of revenues is due to the restructuring and downsizing efforts noted above, as well as IDT's efforts to groom the Winstar network to better reflect the needs of its current customer base. Direct cost of revenues consist primarily of two components, connectivity for the network backbone and lease payments for the network of provision-ready buildings. Network backbone costs for the three months ended April 30, 2003 totaled \$13.5 million, accounting for 65.2% of total direct cost of revenues. Direct cost of revenues for the three months ended April 30, 2003 associated with lease payments for the building network were \$7.2 million.

*Selling, General and Administrative.* Selling, general and administrative expenses of IDT Solutions decreased 45.3%, from \$29.6 million in the three months ended April 30, 2002 to \$16.2 million in the three months ended April 30, 2003. The decrease is primarily due to the significant cost saving measures undertaken by IDT subsequent to the acquisition of the Winstar assets, which included a significant reduction in headcount. The main component of selling, general and administrative expenses for the three months ended April 30, 2003 was employee compensation and benefits, accounting for \$11.9 million, or 73.5% of total selling, general and administrative expenses. Since the acquisition of the Winstar assets in December 2001, the number of employees of Winstar has been reduced from approximately 750 to approximately 520 as of April 30, 2003.

*Depreciation and Amortization.* Depreciation and amortization was \$2.9 million in the three months ended April 30, 2002 compared to \$3.6 million in the three months ended April 30, 2003. As a percentage of IDT Solutions' revenues, depreciation and amortization increased from 8.8% in the three months ended April 31, 2002 to 17.3% in the three months ended April 30, 2003, primarily due to the lower revenue base as discussed above.

*Non-cash Compensation.* IDT Solutions recorded non-cash compensation of \$2.3 million in the three months ended April 30, 2002, as a result of modifications to stock option agreements of certain terminated employees.

*Loss from Operations.* IDT Solutions' loss from operations in the three months ended April 30, 2002 was \$43.9 million, compared to \$19.6 million in the three months ended April 30, 2003. The decrease in loss from operations is due to the significant cost saving measures undertaken by IDT subsequent to the acquisition of the Winstar assets, which included the downsizing of the Winstar network and a significant reduction in headcount, as described above.

### *IDT Media Segment*

In May 2003, IDT Media's Digital Production Solutions unit (which operates IDT Media's animation business line) acquired a controlling interest in Film Roman, Inc., an independent animation company, through the purchase of newly issued shares of Film Roman common stock. For the year ended December 31, 2002, Film Roman reported revenues of \$43.3 million and a net loss of \$8.6 million. In the upcoming quarters, our results from operations will include the consolidation of Film Roman.

*Revenues.* Revenues from IDT Media's businesses increased 31.0%, from \$4.2 million in the three months ended April 30, 2002 to \$5.5 million in the three months ended April 30, 2003. In Fiscal 2002, IDT Media gradually exited its Digital Subscriber Line ("DSL") business. Currently, IDT Media's revenues are primarily comprised of revenues from its CTM Brochure Display, Inc. business, a brochure distribution company.

*Direct Cost of Revenues.* Direct cost of revenues decreased from \$0.7 million in the three months ended April 30, 2002 to \$0.4 million in the three months ended April 30, 2003. As a percentage of IDT Media's revenues, these costs decreased from 16.7% for the three months ended April 30, 2002 to 7.3% for the three months ended April 30, 2003. Most of IDT Media's businesses remain in the early stages of their development. As such, we anticipate that direct costs will continue to account for a relatively small percentage of IDT Media's revenues, with most of the expenses associated with these businesses to be incurred in the form of selling, general, administrative and development costs.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased 16.9%, from \$8.3 million in the three months ended April 30, 2002 to \$6.9 million in the three months ended April 30, 2003. The decrease in selling, general and administrative expenses reflect the exit from the DSL Internet access business and from the video-streaming business, as well as the general refocusing of the portfolio of businesses towards media related businesses. In addition, during Fiscal 2002, IDT Media implemented stricter management controls over operating expenses. Partially offsetting the general



reduction in costs were additional expenses incurred with the startup of a newly created customer service outsourcing operation.

*Depreciation and Amortization.* Depreciation and amortization expense was \$0.1 million in the three months ended April 30, 2002, versus \$0.6 million in the three months ended April 30, 2003. As a percentage of revenues, depreciation and

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amortization expense increased to 10.9% in the three months ended April 30, 2003, from 2.4% in the three months ended April 30, 2002.

*Loss from Operations.* Loss from operations in the three months ended April 30, 2002 was \$5.0 million, compared to a loss from operations of \$2.3 million in the three months ended April 30, 2003, reflecting primarily the lower level of selling, general and administrative expenses resulting from stricter management controls over operating expenses, as well as the refocusing of the segment's business portfolio towards media related businesses.

***IDT Internet Telephony Segment***

The Internet Telephony business segment reflects the results of Net2Phone, which we reconsolidated effective October 23, 2001. As of April 30, 2003, IDT's ownership interest in Net2Phone was approximately 18.6%. Accordingly, IDT recorded approximately 81.4% of Net2Phone's results attributable to the remaining shareholders in the minority interests line of the condensed consolidated statements of operations. Prior to October 23, 2001, we accounted for our investment in Net2Phone under the equity method of accounting and, accordingly, such results were included in the equity in loss of affiliates line of the condensed consolidated statements of operations.

*Revenues.* Net2Phone's revenues are primarily derived from per-minute charges billed to its customers on a prepaid basis and from the sale of Internet telephony equipment and services to resellers and other carriers. Revenues decreased 16.6% from \$23.5 million in the three months ended April 30, 2002 to \$19.6 million for the three months ended April 30, 2003. In the second quarter of Fiscal 2003, Net2Phone purposefully de-emphasized seeking revenues from relatively low-margin services, such as disposable calling cards, in favor of building up activities to generate revenues in relatively high-margin services, such as international communications services, during the upcoming periods.

*Direct Cost of Revenues.* Net2Phone's direct cost of revenues consists primarily of network costs associated with carrying customer traffic on its network, wholesale costs of Internet telephony devices, ad serving costs and e-mail box hosting fees. It also includes the cost of purchasing, storing and shipping Internet telephony equipment. Total direct cost of revenues, excluding depreciation and amortization, were \$9.8 million in the three months ended April 30, 2002 compared to \$10.0 million in the three months ended April 30, 2003. As a percentage of total Internet Telephony revenues, total direct costs was 41.7% in the three months ended April 30, 2002 compared to 51.0% in the three months ended April 30, 2003 primarily due to changes in traffic calling patterns

*Selling, General and Administrative.* Selling, general and administrative expenses consist of employee salaries and benefits, the expenses associated with acquiring customers, including commissions paid to sales partners, advertising costs, referral fees and amounts paid to strategic partners in connection with revenue-sharing arrangements, and the costs of insurance, legal services, rent, utilities, shipping, consulting and other items. Selling, general and administrative expenses decreased 49.4% from \$25.1 million in the three months ended April 30, 2002 to \$12.7 million in the three months ended April 30, 2003. The decrease is due primarily to continuing cost management initiatives and elimination of certain expenses directly related to the restructurings of Net2Phone's operations that were announced during Fiscal 2002 and October 2002. As a percentage of total Internet Telephony revenues, these costs were 106.8% in the three months ended April 30, 2002 compared to 64.8% in the three months ended April 30, 2003. Net2Phone anticipates that selling, general and administrative expenses (excluding restructuring, severance and impairment charges) will decrease for the remainder of Fiscal 2003, as it benefits from the effects of the restructuring of its operations.

*Depreciation and Amortization.* Depreciation and amortization expense decreased 67.1% from \$7.0 million in the three months ended April 30, 2002 to \$2.3 million in the three months ended April 30, 2003. The decrease is due to the lower asset base as a result of the impairment charge for long-lived assets recognized during the quarter ended April 30, 2002. As a percentage of total Internet Telephony revenues, depreciation and amortization expense was 29.8% in the three months ended April 30, 2002 compared to 11.7% in the three months ended April 30, 2003.

*Non-cash Compensation.* Non-cash compensation was \$6.7 million in the three months ended April 30, 2002 compared to \$2.7 million in the three months ended April 30, 2003. For the three months ended April 30, 2003, Net2Phone's non-cash compensation primarily resulted from a charge of \$1.0 million related to repriced options which are subject to variable accounting treatment and therefore must be marked-to-market each quarter, and a charge of \$1.1 million for the amortization of the discount of ADIR shares sold to Net2Phone and ADIR employees in Fiscal 2001. The total discount of approximately \$17.9 million is being amortized over the vesting period of such shares.

For the three months ended April 30, 2002, Net2Phone's non-cash compensation of \$6.7 million resulted primarily from a charge of \$2.0 million related to repriced options which are subject to variable accounting treatment and therefore must be

marked-to-market each quarter, a charge of \$1.1 million for the amortization of the discount of ADIR shares sold to Net2Phone and ADIR employees in Fiscal 2001, and for charges taken related to stock options granted at below market value.

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*Restructuring, Severance and Impairment Charges.* Restructuring, severance and impairment charges were \$114.4 million in the three months ended April 30, 2002 compared to \$1.7 million in the three months ended April 30, 2003. This decrease is due mainly to various impairment charges taken during the third quarter of Fiscal 2002, including an \$83.9 million impairment of fixed assets, a \$11.5 million impairment of goodwill and a \$4.2 million impairment of intangible assets. Also, Net2Phone went through several restructurings during the third quarter of Fiscal 2002, which resulted in significant charges related to workforce reductions, costs associated with exiting various locations and canceling connectivity contracts. Refer to Note 12 of our condensed consolidated financial statements for additional information.

*Loss from Operations.* Net2Phone's loss from operations was \$139.6 million in the three months ended April 30, 2002 compared to \$9.8 million in the three months ended April 30, 2003. The reduction in our loss from operations was primarily attributable to lower restructuring, severance and impairment charges recorded during the three months ended April 30, 2003. Included in Net2Phone's loss from operations for the three months ended April 30, 2002 and 2003 were \$114.4 million and \$1.7 million, of restructuring, severance and impairment charges, respectively.

***Corporate***

Our Corporate costs consist of corporate services, such as treasury management costs, corporate governance costs, public relations, corporate management and legal costs, corporate insurance, and other general corporate expenses, as well as depreciation expense on corporate assets. Such corporate services are shared generally by our other operating segments, and are not allocable to any specific segment. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

*Selling, General and Administrative.* We incurred \$5.9 million in corporate selling, general and administrative expenses in the three months ended April 30, 2002, compared to \$7.8 million incurred in the three months ended April 30, 2003. The increase is due largely to increased costs of litigation against Telefonica and Terra Networks, S.A. As a percentage of our total consolidated revenues, corporate selling, general and administrative expenses were 1.5% in the three months ended April 30, 2002, compared to 1.7% in the three months ended April 30, 2003.

*Depreciation and Amortization.* Depreciation expense decreased from \$0.6 million for the three months ended April 30, 2002 to \$0.4 million for the three months ended April 30, 2003.

*Non-cash Compensation.* Non-cash compensation charges were \$13.7 million in the three months ended April 30, 2003. On April 25, 2003, all then outstanding stock options exercisable for shares of our common stock (which were exercisable for an aggregate of 1.9 million shares) were amended to instead be exercisable for an equal number of shares of our Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. Accordingly, we recorded a non-cash compensation charge for the three months ended April 30, 2003 of \$13.7 million for the modification of the options.

*Loss from Operations.* Loss from operations was \$6.5 million in the three months ended April 30, 2002, compared to \$21.8 million in the three months ended April 30, 2003, as a result of the higher selling, general and administrative expenses and non-cash compensation noted above.

**Nine Months Ended April 30, 2003 Compared to Nine Months Ended April 30, 2002****Results of Operations**

We evaluate the performance of our operating business segments based primarily on income (loss) from operations. Accordingly, certain adjustments are properly not reflected in the operating business segments discussions, but are only reflected in our Consolidated discussion.

***Consolidated***

*Revenues.* Our revenues increased 17.0%, from \$1,153.0 million in the nine months ended April 30, 2002 to \$1,348.8 million in the nine months ended April 30, 2003. Excluding revenues from our IDT Solutions segment, which was acquired in December 2001, and our Internet Telephony segment, consisting of Net2Phone, which was reconsolidated effective October 23, 2001, our revenues increased 16.4%, from \$1,047.7 million in the nine months ended April 30, 2002 to \$1,219.5 million in the nine months ended April 30, 2003. The increase in our consolidated revenues (excluding our IDT Solutions and Internet Telephony segments) is mainly attributable to a 16.6% increase in IDT Telecom's revenues. The growth in IDT Telecom's revenues primarily resulted from a 47.0% growth in minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network), from 8.3 billion in the nine months ended April 30, 2002 to 12.2 billion in the nine months ended April 30, 2003.



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*Direct Cost of Revenues.* Direct cost of revenues increased by 16.8%, from \$886.8 million in the nine months ended April 30, 2002 to \$1,036.2 million in the nine months ended April 30, 2003. Excluding direct costs of revenues from our IDT solutions and Internet Telephony segments, direct cost of revenues increased 15.9%, from \$802.2 million in the nine months ended April 30, 2002 to \$929.7 million in the nine months ended April 30, 2003. As a percentage of total revenues, direct costs decreased from 77.0% in the nine months ended April 30, 2002 to 76.8% in the nine months ended April 30, 2003 (and decreased from 76.6% to 76.2% excluding our IDT Solutions and Internet Telephony segments). The decline in direct costs as a percentage of revenues is attributable to overall higher revenues due to the growth of minutes-of-use and because of continued operating efficiency gains and lower prices from suppliers.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased 4.5%, from \$331.8 million in the nine months ended April 30, 2002 to \$316.9 million in the nine months ended April 30, 2003. Excluding selling, general and administrative expenses from our IDT Solutions and Internet Telephony segments, selling, general and administrative expenses increased 2.9%, from \$219.4 million in the nine months ended April 30, 2002 to \$225.8 million in the nine months ended April 30, 2003, due primarily to the increased sales and marketing efforts of IDT Telecom as well as increased salaries, facilities costs and professional fees related to the expansion of our infrastructure and bases of operation to facilitate our current and anticipated future growth. As a percentage of total revenues, selling, general and administrative expenses decreased from 28.8% in the nine months ended April 30, 2002 to 23.5% in the nine months ended April 30, 2003 (and from 20.9% to 18.5% excluding our IDT Solutions and Internet Telephony segments). Selling, general and administrative expense declined as a percentage of revenues (excluding IDT Solutions and Internet Telephony) due primarily to the significant growth in our revenues for the nine months ended April 30, 2003.

*Depreciation and Amortization.* Depreciation and amortization expense increased 5.5%, from \$61.9 million in the nine months ended April 30, 2002 to \$65.3 million in the nine months ended April 30, 2003. Excluding depreciation and amortization expense from our IDT Solutions and Internet Telephony segments, depreciation and amortization expense increased 10.9%, from \$43.6 million in the nine months ended April 30, 2002 to \$48.3 million in the nine months ended April 30, 2003, primarily as a result of our higher fixed asset base during the nine months ended April 30, 2003, reflecting the expansion of our telecommunications network infrastructure and facilities. As a percentage of revenues, depreciation and amortization expense decreased from 5.4% in the nine months ended April 30, 2002 to 4.8% in the nine months ended April 30, 2003 (and decreased from 4.2% to 4.0% excluding our IDT Solutions and Internet Telephony segments).

*Settlement by Net2Phone of Litigation.* Gain on settlement by Net2Phone of litigation was \$58.0 million for the nine months ended April 30, 2003. Refer to the respective section of the Internet Telephony segment for a full discussion on the gain on settlement by Net2Phone of litigation.

*Non-cash Compensation.* Non-cash compensation charges were \$23.8 million in the nine months ended April 30, 2003 compared to \$15.8 million in the nine months ended April 30, 2002. Refer to the respective sections of the Telecom, IDT Solutions, Corporate and Internet Telephony segments for a discussion on non-cash compensation charges.

*Restructuring, Severance and Impairment Charges.* Restructuring, severance and impairment charges decreased from \$138.4 million in the nine months ended April 30, 2002 to \$9.0 million in the nine months ended April 30, 2003. Refer to the respective sections of the Internet Telephony and IDT Telecom segments for a full discussion on restructuring, severance and impairment charges.

*Loss from Operations.* Our loss from operations was \$281.7 million in the nine months ended April 30, 2002 compared to a loss from operations of \$44.3 million in the nine months ended April 30, 2003. Excluding the loss from operations of our IDT Solutions and Internet Telephony segments, our loss from operations was \$20.2 million in the nine months ended April 30, 2002, compared to \$2.5 million in the nine months ended April 30, 2003. The reduction in our loss from operations (excluding our IDT Solutions and Internet Telephony segments) was due primarily to IDT Telecom's increased revenues, gross margins and operating income, partially offset by one-time non-cash compensation charges.

*Interest.* Net interest income was \$17.2 million in the nine months ended April 30, 2002, compared to net interest income of \$21.3 million in the nine months ended April 30, 2003.

*Other Income (Expense).* Other income (expense) amounted to an expense of \$16.2 million in the nine months ended April 30, 2002, compared to income of \$3.3 million in the nine months ended April 30, 2003. Included in other income in the nine months ended April 30, 2003, were losses of \$3.8 million associated with recording our pro-rata share of an affiliate's losses, through the equity method of accounting, a charge of \$4.7 million related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling \$10.4

million.

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On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88,235 newly-issued shares of IDT Media's Class A common stock, at a price of \$283,334 per share, representing an aggregate cash purchase price of \$25.0 million. In connection with this sale, we recognized a gain of \$22.4 million during the nine months ended April 30, 2003.

Included in other expense in the nine months ended April 30, 2002 were losses of \$5.8 million associated with recording our pro-rata share of Net2Phone's net losses through the equity method of accounting, a charge of \$3.7 million related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling \$6.7 million.

*Minority Interests.* Minority interests were \$147.4 million of income and \$47.0 million of expense for the nine months ended April 30, 2002 and 2003, respectively. The \$194.4 million increase in minority interests was primarily attributable to the significant minority interest in Net2Phone, which we reconsolidated effective October 23, 2001. As of April 30, 2003 and 2002 our economic ownership of Net2Phone was 18.6% and 20.1%, respectively. Accordingly, we recorded in minority interests the percentage of Net2Phone's results attributable to the remaining shareholders of Net2Phone (81.4% and 79.9% as of April 30, 2003 and 2002, respectively).

*Income Taxes.* We recorded an income tax benefit of \$55.2 million in the nine months ended April 30, 2002, compared to an income tax benefit of \$40.8 million in the nine months ended April 30, 2003.

*Cumulative Effect of Accounting Change.* In accordance with our adoption of SFAS No. 142, as of August 1, 2001, we performed the required impairment tests of goodwill and recorded an impairment charge of \$147.0 million, net of income taxes of \$3.5 million, for the nine months ended April 30, 2002. The impairment charge was recorded as a cumulative effect adjustment of a change in accounting principle. No such charges were recorded during the nine months ended April 30, 2003.

*Net Loss.* Our consolidated net loss, after the cumulative effect adjustment of a change in accounting principle detailed above, was \$225.1 million in the nine months ended April 30, 2002 compared to consolidated net loss of \$25.9 million in the nine months ended April 30, 2003. The recording of a net loss in the nine months ended April 30, 2002 and 2003, was a result of the combined factors for each of the segments discussed below, as well as those items detailed above.

### ***IDT Telecom—Retail Telecommunications Services and Wholesale Telecommunications Services Segments***

*Revenues.* IDT Telecom's revenues increased 16.6%, from \$1,032.1 million in the nine months ended April 30, 2002 to \$1,203.0 million in the nine months ended April 30, 2003.

IDT Telecom's revenues increased primarily as a result of a 47.0% growth in minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network) from 8.3 billion in the nine months ended April 30, 2002 to 12.2 billion in the nine months ended April 30, 2003. IDT Telecom experienced growth in minutes of use in both its Retail Telecommunications Services and Wholesale Telecommunications Services segments, in both the U.S. and international operations. IDT Telecom's minutes of use grew at a faster rate than did its revenues, reflecting a decline in its average revenue-per-minute, from \$0.116 during the nine months ended April 30, 2002 to \$0.088 in the nine months ended April 30, 2003. IDT Telecom's decrease in its average revenue-per-minute is due to a number of factors, including (i) continued competition in both retail and wholesale markets, and (ii) introduction of new calling cards.

Revenues from IDT Telecom's Retail Telecommunications Services segment increased \$89.4 million, or 10.8%, from \$825.5 million in the nine months ended April 30, 2002 to \$914.9 million in the nine months ended April 30, 2003. This growth was largely the result of a \$54.5 million increase in sales of IDT-branded calling cards and a \$34.7 million increase in consumer long distance revenues. As a percentage of IDT Telecom's overall revenue, Retail Telecommunications Services' revenues decreased from 79.6% in the nine months ended April 30, 2002 to 76.1% in the nine months ended April 30, 2003, as revenues from our Wholesale Telecommunications Services segment grew at a faster rate than did our retail businesses revenues. IDT Telecom's calling card sales increased 7.3%, from \$745.5 million in the nine months ended April 30, 2002 to \$800.0 million in the nine months ended April 30, 2003, fueled by the introduction of several new calling cards.

Calling card sales as a percentage of IDT Telecom's Retail Telecommunications Services revenues decreased from 90.3% in the nine months ended April 30, 2002 to 87.4% in the nine months ended April 30, 2003, as revenues from consumer long distance services grew at a faster rate than did calling card revenues. Revenues from consumer long distance services, in which we act as a switchless reseller of another company's network, experienced significant growth in minutes of use in the nine months ended April 30, 2003, with revenues increasing 45.7%, from \$78.2 million in the nine months ended April 30, 2002 to \$113.9 million in the nine months ended April 30, 2003. The consumer long distance revenue increase is attributable to the continued growth of our flat rate, \$0.05 a minute long distance calling plan, which has been driven by increased



marketing expenditures, resulting in a significant increase in the number of consumer long distance customers.

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Revenues from IDT Telecom's other Retail Telecommunications Services businesses, consisting primarily of call reorigination services, amounted to \$1.9 million in the nine months ended April 30, 2002, versus \$1.0 million in the nine months ended April 30, 2003.

IDT Telecom's Wholesale Telecommunications Services revenues increased 39.5%, from \$206.6 million in the nine months ended April 30, 2002 to \$288.2 million in the nine months ended April 30, 2003. As a percentage of IDT Telecom's total revenues, Wholesale Telecommunications Services revenues increased from 20.0% in the nine months ended April 30, 2002 to 24.0% in the nine months ended April 30, 2003. The increase in revenues occurred as a result of an increase in wholesale carrier minutes, despite a significant decline in the average revenue-per-minute.

*Direct Cost of Revenues.* Direct cost of revenues for IDT Telecom increased 16.0%, from \$800.4 million in the nine months ended April 30, 2002 to \$928.3 million in the nine months ended April 30, 2003, due to the higher revenue and minutes base. As a percentage of total IDT Telecom's revenues, direct costs declined to 77.2% in the nine months ended April 30, 2003, from 77.6% in the nine months ended April 30, 2002. The decrease in direct costs as a percentage of total revenues is attributable to overall higher revenues due to the strong growth of minutes-of-use and because of continued operating efficiency gains and lower prices from suppliers. The decrease in direct costs as a percentage of total revenues occurred despite the lower revenue per minute price realization and despite increases in our costs for toll-free "800" traffic, and network related costs, due to our strong growth of minutes-of-use.

*Selling, General and Administrative.* IDT Telecom's selling, general and administrative expenses increased 5.1%, from \$172.9 million in the nine months ended April 30, 2002 to \$181.7 million in the nine months ended April 30, 2003. The increase in selling, general and administrative expenses for IDT Telecom's operations is due to several factors, including increased sales and marketing efforts for our Retail Telecommunications Services segment, such as calling cards and consumer long distance, as well as increased salaries, facilities costs and professional fees related to the expansion of our infrastructure and bases of operation to facilitate our current and anticipated future sales growth. As a percentage of IDT Telecom's total revenues, selling, general and administrative expenses were 16.8% in the nine months ended April 30, 2002, compared to 15.1% in the nine months ended April 30, 2003.

*Depreciation and Amortization.* IDT Telecom's depreciation and amortization expense rose 16.2%, from \$39.4 million in the nine months ended April 30, 2002, to \$45.8 million in the nine months ended April 30, 2003, reflecting the continued expansion of our fixed asset base, as we invest to accommodate our current and anticipated future growth. As a percentage of IDT Telecom's total revenues, depreciation and amortization expense was 3.8% in the nine months ended April 30, 2002 and 2003.

*Non-cash Compensation.* IDT Telecom recorded non-cash compensation of \$2.5 million in the nine months ended April 30, 2003, primarily attributable to the modification of stock option agreements of certain terminated employees.

*Restructuring, Severance, and Impairment Charges.* Impairment charges of \$2.8 million and \$1.5 million were recorded by IDT Telecom during the nine months ended April 30, 2002 and 2003, respectively, resulting primarily from the write down of certain decommissioned European telecommunications switch equipment, and the write-off of a discontinued Indefeasible Right of Use ("IRU"), respectively.

*Income from Operations.* IDT Telecom recorded income from operations of \$16.7 million in the nine months ended April 30, 2002, compared to income from operations of \$43.4 million in the nine months ended April 30, 2003. The increase in income from operations resulted primarily from the revenue growth and improved gross margins.

**IDT Solutions Segment**

We acquired the assets currently held by Winstar on December 19, 2001. Accordingly, the results of operations for our IDT Solutions segment, which operates through Winstar, for the nine months ended April 30, 2002, reflect only the results of operations during such period that we owned and operated Winstar.

*Revenues.* Revenues from IDT Solutions increased 26.0%, from \$52.3 million in the nine months ended April 30, 2002 to \$65.9 million in the nine months ended April 30, 2003. The increase in revenues is due to the fact that the Winstar assets were acquired in December 2001, and therefore generated revenues for only a portion of the nine months ended April 30, 2002.

*Direct Cost of Revenues.* Direct cost of revenues for IDT Solutions increased 17.6%, from \$62.5 million in the nine months ended April 30, 2002 to \$73.5 million in the nine months ended April 30, 2003. The increase in direct cost of revenues is due to the fact that the Winstar assets were acquired in December 2001 and therefore generated revenues and costs for only a

portion of the nine months ended April 30, 2002. Direct cost of revenues consist primarily of two components, connectivity for the network backbone and lease payments for the network of provision-ready buildings. Network backbone costs for the nine months ended April 30, 2003 totaled \$51.0 million, accounting for 69.4% of total direct cost of revenues. Direct cost of revenues for the nine months April 30, 2003 associated with lease payments for the building network were \$22.0 million.

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*Selling, General and Administrative.* Selling, general and administrative expenses of IDT Solutions increased 6.4%, from \$47.1 million in the nine months ended April 30, 2002 to \$50.1 million in the nine months ended April 30, 2003. The increase is due to the fact that the Winstar assets were acquired in December 2001 and therefore generated revenues and expenses for only a portion of the nine months ended April 30, 2002. The main component of selling, general and administrative expenses for the nine months ended April 30, 2003 was employee compensation and benefits, accounting for \$35.6 million, or about 71.1% of total selling, general and administrative expenses.

*Depreciation and Amortization.* Depreciation and amortization expense increased 197.0%, from \$3.3 million in the nine months ended April 30, 2002 to \$9.8 million in the nine months ended April 30, 2003. The increase is due to the fact that the Winstar assets were acquired in December 2001, and therefore depreciation on such assets was only recorded for a portion of the nine months ended April 30, 2002. As a percentage of IDT Solutions revenues, depreciation and amortization was 6.3% in the nine months ended April 30, 2002 compared to 14.9% in the nine months ended April 30, 2003.

*Non-cash Compensation.* IDT Solutions recorded non-cash compensation of \$2.3 million in the nine months ended April 30, 2002, attributable to the modification of stock option agreements of certain terminated employees.

*Loss from Operations.* IDT Solutions' loss from operations in the nine months ended April 30, 2002 was \$63.0 million, compared to \$67.5 million in the nine months ended April 30, 2003. The increase in loss from operations is primarily attributable to the increase in selling, general and administrative expenses and in depreciation and amortization, as the nine months ended April 30, 2002 reflect only the results of operations during such period that we owned and operated Winstar.

***IDT Media Segment***

*Revenues.* Revenues from the IDT Media segment increased 5.8%, from \$15.6 million in the nine months ended April 30, 2002 to \$16.5 million in the nine months ended April 30, 2003. In Fiscal 2002, IDT Media gradually exited its DSL business. Currently, IDT Media's revenues are primarily comprised of revenues from CTM.

*Direct Cost of Revenues.* Direct cost of revenues decreased from \$1.8 million in the nine months ended April 30, 2002 to \$1.5 million in the nine months ended April 30, 2003. As a percentage of IDT Media's revenues, direct cost of revenues decreased from 11.5% in the nine months ended April 30, 2002 to 9.1% in the nine months ended April 30, 2003. Most of IDT Media's businesses remain in the early stages of their development. As such, we anticipate that direct costs will continue to account for a relatively small percentage of IDT Media's revenues, with most of the expenses associated with these businesses to be incurred in the form of selling, general, administrative and development costs.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased 30.1%, from \$28.9 million in the nine months ended April 30, 2002 to \$20.2 million in the nine months ended April 30, 2003. The decrease in selling, general, and administrative expenses reflect the exit from the DSL Internet access business and from the video-streaming business, as well as the general refocusing of the portfolio of businesses towards media related businesses. In addition, during Fiscal 2002, IDT Media implemented stricter management controls over operating expenses. Partially offsetting the general reduction in costs were additional expenses incurred with the startup of a newly created customer service operation.

*Depreciation and Amortization.* Depreciation and amortization expense was \$2.2 million in the nine months ended April 30, 2002, versus \$1.2 million in the nine months ended April 30, 2003. This decrease is due to the reduced fixed asset base resulting from our sale of our former DSL business. As a percentage of revenues, depreciation and amortization expense fell to 7.3% in the nine months ended April 30, 2003, from 14.1% in the nine months ended April 30, 2002.

*Loss from Operations.* Loss from operations in the nine months ended April 30, 2002 was \$17.2 million, compared to a loss from operations of \$6.4 million in the nine months ended April 30, 2003, reflecting the lower level of selling, general and administrative expenses resulting from stricter management controls over operating expenses, as well as the refocusing of the segment's business portfolio towards media related businesses.

***IDT Internet Telephony Segment***

The Internet Telephony business segment reflects the results of Net2Phone, which was reconsolidated effective October 23, 2001.

*Revenues.* Revenues increased 19.6% from \$53.0 million in the nine months ended April 30, 2002 to \$63.4 million for the nine months ended April 30, 2003. The increase is primarily attributable to the shorter Fiscal Year 2002 base period, as Net2Phone was reconsolidated effective October 23, 2001. In addition, during the nine months ended April 30, 2003, Net2Phone has concentrated its marketing and sales efforts towards building up activities to generate revenues in relatively

high-margin services, such as international communications services, during the upcoming periods.

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*Direct Cost of Revenues.* Total direct cost of revenues, excluding depreciation and amortization, increased 50.0% from \$22.0 million in the nine months ended April 30, 2002 to \$33.0 million in the nine months ended April 30, 2003. The increase is primarily attributable to the shorter Fiscal Year 2002 base period, as Net2Phone was reconsolidated effective October 23, 2001. As a percentage of total Internet Telephony revenues, total direct costs was 41.5% in the nine months ended April 30, 2002 compared to 52.1% in the nine months ended April 30, 2003.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased 37.2% from \$65.3 million in the nine months ended April 30, 2002 to \$41.0 million in the nine months ended April 30, 2003. The decrease is attributable to continuing cost management initiatives and elimination of certain expenses directly related to the restructurings of Net2Phone's operations that were announced during Fiscal 2002 and October 2002, offset by an increase attributable to the shorter Fiscal Year 2002 base period, as Net2Phone was reconsolidated effective October 23, 2001. As a percentage of total Internet Telephony revenues, these costs were 123.0% in the nine months ended April 30, 2002 compared to 64.7% in the nine months ended April 30, 2003.

*Depreciation and Amortization.* Depreciation and amortization expense decreased 52.0% from \$15.0 million in the nine months ended April 30, 2002 to \$7.2 million in the nine months ended April 30, 2003. The decrease is due to the lower asset base as a result of the impairment charge for long-lived assets recognized during the quarter ended April 30, 2002, offset by the shorter Fiscal Year 2002 base period, as Net2Phone was reconsolidated effective October 23, 2001. As a percentage of total Internet Telephony revenues, depreciation and amortization expense was 28.3% in the nine months ended April 30, 2002 compared to 11.4% in the nine months ended April 30, 2003.

*Settlement by Net2Phone of Litigation.* Gain on settlement by Net2Phone of litigation was \$58.0 million in the nine months ended April 30, 2003. On March 19, 2002 Net2Phone and its ADIR Technologies, Inc. subsidiary filed suit in the United States District Court for the District of New Jersey against Cisco Systems, Inc. and a Cisco executive who had been a member of ADIR's board of directors. The suit arose out of the relationships that had been created in connection with Cisco's and Net2Phone's original investments in ADIR and out of ADIR's subsequent purchase of NetSpeak, Inc. in August 2001. The parties settled the suit and all related claims against Cisco and the Cisco executive in exchange for: (i) the transfer, during the first quarter of Fiscal 2003, to Net2Phone of Cisco's and Softbank Asia Infrastructure Fund's respective 11.5% and 7.0% interests in ADIR, and (ii) the payment by Cisco, during such quarter, of \$19.5 million to Net2Phone and ADIR. As a result of this settlement, Net2Phone recognized for the quarter ended October 31, 2002, a gain of \$58.4 million consisting of (i) a \$38.9 million reduction in Net2Phone's minority interests in ADIR as a result of the transfer of the ADIR shares, and (ii) the receipt of settlement proceeds of \$19.5 million. During the second quarter of Fiscal 2003, Net2Phone recorded an additional \$0.4 million in executive compensation expense directly related to the Cisco settlement.

*Non-cash Compensation.* Non-cash compensation was \$13.5 million in the nine months ended April 30, 2002 compared to \$7.1 million in the nine months ended April 30, 2003. These amounts include charges of \$2.0 million and \$2.7 million during the nine months ended April 30, 2002 and 2003, respectively, relating to repriced options which are subject to variable accounting treatment and therefore must be marked-to-market each quarter. In addition, charges of \$3.3 million were recorded during both periods for the amortization of the discount of ADIR shares sold to Net2Phone and ADIR employees in Fiscal 2001. The non-cash compensation for the nine months ended April 30, 2002 also includes charges resulting from stock options granted at below market value by Net2Phone.

*Restructuring, Severance and Impairment Charges.* Restructuring, severance and impairment charges were \$135.6 million in the nine months ended April 30, 2002 compared to \$7.6 million in the nine months ended April 30, 2003. For the nine months ended April 30, 2003, the charges consisted primarily from severance of \$3.2 million, relating to the consolidation in the first quarter of Fiscal 2003 of Net2Phone's development and support organizations. In addition, Net2Phone recorded \$3.0 million of severance costs for certain former executives, \$1.9 million of asset impairment charges, and \$1.8 million of costs to exit various locations and eliminate network buildouts. These costs were partially offset by Net2Phone's reversal of a reserve related to successful settlement negotiations with vendors regarding cancellation charges.

During the third quarter of Fiscal 2002 various impairment charges were taken, including an \$83.9 million impairment of fixed assets, a \$11.5 million impairment of goodwill and a \$4.2 million impairment of intangible assets. Also, Net2Phone went through several restructurings during the third quarter of Fiscal 2002, which resulted in significant charges related to workforce reductions, exit costs associated with exiting various locations and cancellation of connectivity contracts. Refer to Note 12 of our condensed consolidated financial statements for additional information.

*Income (Loss) from Operations.* Income (loss) from Net2Phone's operations was \$198.6 million loss from operations in the nine months ended April 30, 2002 compared to \$25.7 million of income from operations in the nine months ended April 30,

2003. Included in Net2Phone's income from operations for the nine months ended April 30, 2003 were \$7.6 million of restructuring, severance and impairment charges and a \$58.0 million gain from the settlement by Net2Phone of litigation.



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Included in Net2Phone's loss from operations for the nine months ended April 30, 2002 were \$135.6 million of restructuring, severance and impairment charges.

***Corporate***

Our Corporate costs consist of corporate services, such as treasury management costs, corporate governance costs, public relations, corporate management and legal costs, corporate insurance, and other general corporate expenses, as well as depreciation expense on corporate assets. Such corporate services are shared generally by our other operating segments, and are not allocable to any specific segment. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

*Selling, General and Administrative.* We incurred \$17.6 million in corporate selling, general and administrative expenses in the nine months ended April 30, 2002, compared to \$23.9 million incurred in the nine months ended April 30, 2003. The increase is due largely to increased costs of litigation against Telefonica and Terra Networks, S.A. As a percentage of our total consolidated revenues, corporate selling, general and administrative expenses were 1.6% in the nine months ended April 30, 2002, compared to 1.8% in the nine months ended April 30, 2003.

*Depreciation and Amortization.* Depreciation expense decreased from \$2.0 million for the nine months ended April 30, 2002 to \$1.3 million for the nine months ended April 30, 2003.

*Non-cash Compensation.* Non-cash compensation charges were \$14.2 million in the nine months ended April 30, 2003. On April 25, 2003, all then outstanding options exercisable for shares of our common stock (which were exercisable for an aggregate of 1.9 million shares) were amended to instead be exercisable for an equal number of shares of our Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. Accordingly, we recorded a non-cash compensation charge for the nine months ended April 30, 2003 of \$13.7 million for the modification of the options.

In addition, we recorded \$0.5 million of non-cash compensation attributable to shares of Class B common stock that we issued to an outside consultant.

*Loss from Operations.* Loss from operations was \$19.6 million in the nine months ended April 30, 2002, compared to \$39.4 million in the nine months ended April 30, 2003, as a result of the higher selling, general and administrative expenses and non-cash compensation noted above.

**Liquidity and Capital Resources*****General***

Historically, we have satisfied our cash requirements through a combination of cash flow from operating activities, sales of equity and debt securities and borrowings from third parties. Additionally, we received approximately \$1.0 billion from the sale of Net2Phone Class A common stock to AT&T in August 2000. Since that time, our cash requirements have been satisfied for the most part through our existing cash, cash equivalents and marketable securities balances.

As of April 30, 2003, we had cash, restricted cash, cash equivalents, and marketable securities of \$1.1 billion, which includes \$102.0 million held by Net2Phone, and working capital of \$808.1 million. We used cash flow in operating activities of \$11.2 million and \$27.8 million during the nine months ended April 30, 2003 and 2002, respectively. Our cash flow from operations varies significantly from quarter to quarter and from year to year, depending on the timing of operating cash receipts and payments, especially trade accounts receivable and trade accounts payable. Gross trade accounts receivable, accrued expenses and deferred revenue have generally increased from period to period as our businesses have grown.

We used \$161.4 million and \$260.9 million in cash to fund investing activities during the nine months ended April 30, 2003 and 2002, respectively. The primary use of cash for investing activities during the nine months ended April 30, 2003 was for the net purchases of \$92.6 million of marketable securities (primarily U.S. Government Agency Obligations). Our capital expenditure investments were approximately \$51.4 million in the nine months ended April 30, 2003, compared to approximately \$36.2 million in the nine months ended April 30, 2002, as we have continued to expand IDT Telecom's international and domestic telecommunications network infrastructure. The future minimum payments of principal and interest on our capital lease obligations are \$8.3 million, \$26.4 million, \$16.6 million, \$13.0 million, \$3.1 million, and \$2.4 million for the remainder of Fiscal 2003, Fiscal 2004, Fiscal 2005, Fiscal 2006, Fiscal 2007, and thereafter, respectively. Throughout Fiscal 2003 to date, we have made considerable expenditures designed to expand our global telecommunications network. Key elements of our network expansion plan for Fiscal 2003 to date included the addition of a second international gateway switch in the UK and another international gateway switch in the U.S. We now operate a total of nine international



gateway switches, broken down as follows: five in the U.S., two in the UK and one each in Argentina and Peru. Over the remainder of Fiscal 2003, IDT anticipates making additional expenditures to expand our calling card platform in the U.S. and to upgrade our network in South America. For the full 2003 fiscal year, we anticipate capital expenditures in the \$60 million to \$70 million range. We anticipate further expansion of

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our worldwide switching network in Fiscal 2004, with the addition of at least one international gateway switch in each of the U.S. and UK portions of our network. In addition, we anticipate making further expenditures to bolster our network infrastructure in South America and Asia. We currently anticipate that capital expenditures for Fiscal 2004 will be in the \$50 million to \$75 million range. These estimates are contingent upon several factors, including, but not limited to, market prices for telecommunications equipment, the availability of such equipment in the distressed asset market and the specific timing of our network expansion projects. We have generally adopted a strategy of investing in network expansion only as the need arises, as dictated by our telecommunications traffic volumes. Therefore, the timing of our network expansion, and the coincident purchases of property, plant and equipment, are highly dependent upon the timing and magnitude of the growth in our telecommunications minutes-of-use. We expect to fund our purchases of property, plant and equipment from our operating cash flows and our cash, cash equivalents and marketable securities balances. From time to time, we will also finance a portion of our capital expenditures through capital leases, with the cost of such financing the primary consideration in determining our financing activity.

Our Board of Directors has authorized the repurchase of up to 45 million shares of our common stock and Class B common stock. We have repurchased a total of 15.6 million shares under the share repurchase program through Fiscal 2002, of which 6.2 million shares were retired as of July 31, 2002. No additional shares were purchased or retired during the nine months ended April 30, 2003.

We used \$21.8 million in cash to fund our financing activities during the nine months ended April 30, 2003, compared to \$29.8 million in cash flow that was provided by our financing activities during the nine months ended April 30, 2002. We received approximately \$10.0 million in proceeds from the exercise of stock options during the nine months ended April 30, 2003, compared to \$44.5 million received during the nine months ended April 30, 2002. In addition, we received proceeds of \$25.0 million during the nine months ended April 30, 2003 from the sale of shares of our IDT Media subsidiary stock, compared to \$30.0 million received during the nine months ended April 30, 2002 from the sale of shares of our IDT Telecom subsidiary stock. We also paid \$15.6 million to repurchase IDT shares during the nine months ended April 30, 2002, through our stock buyback program, mentioned above.

We experience intense price competition in our telecommunications businesses. The long distance telecommunications industry has been characterized by significant declines in both per-minute revenues and per-minute costs, as evidenced by IDT Telecom's experience during Fiscal 2002 and the nine months ended April 30, 2003. During the nine months ended April 30, 2003, IDT Telecom's average revenue-per-minute was \$0.088 per minute, down 24.1% from \$0.116 per minute for the nine months ended April 30, 2002. However, IDT Telecom's average termination cost per-minute dropped approximately 21.9%, to \$0.075 in the nine months ended April 30, 2003, from \$0.096 in the nine months ended April 30, 2002.

In the past, and over time, we believe that these factors tend to offset each other, with prices and costs moving in the same general direction. However, over a shorter term, such as one quarter or one year, the drop in pricing could outpace the drop in costs, or vice versa. In addition, due to continued pricing pressure in most of the retail and wholesale markets in which we compete, we might be compelled to pass along most or all of our per-minute cost savings to our customers in the form of lower rates. We might also be unable, in the event that some of our per-minute costs rise, to immediately pass along the additional costs to our customers in the form of higher rates. Consequently, over any given period, gross margins could expand or narrow, based solely on the timing of changes in revenue-per-minute and cost-per-minute. Our long-term strategy involves terminating a larger proportion of minutes on our own network, thereby lowering costs and preserving margins even in a weaker price environment, as we become less subject to the prices charged by third parties for terminating our minutes over their networks. In addition, as our minutes-of-use have steadily grown, we have attempted to leverage our buying power and our strong balance sheet to negotiate more favorable rates with our suppliers. However, in the short term, the incremental demand for usage might outpace the rate of deployment of additional network capacity, particularly in light of our expectation for continued growth in our minutes volume. As such, there can be no assurance that we will be able to maintain our gross margins at the current level, in the face of lower per-minute revenues.

We continued to fund our IDT Media segment throughout the first nine months of Fiscal 2003, incurring significant start-up, development, marketing and promotional costs. Due to the start-up nature of many of the IDT Media businesses, the exact timing and magnitude of future revenues remains difficult to predict. As such, we anticipate that IDT Media will continue to rely on us to fund its cash needs, including operating expenses, capital expenditures and potential acquisitions. Currently, IDT Media is aggressively pursuing acquisitions and/or other investments, primarily in its radio and animation business lines.

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A common stock, at a price of \$283,334 per share, representing an aggregate cash purchase price of \$25.0 million. We may continue to look to outside investors to fund IDT Media's ongoing expansion, which may include similar transactions

occurring in future years.

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Since our acquisition of the Winstar assets in December 2001, the IDT Solutions segment has experienced working capital deficits. We have undertaken significant cost saving measures and restructured IDT Solution's operations, which included the downsizing of the Winstar network and a significant reduction in headcount, aimed at reducing the working capital deficit. However, at this time, IDT foresees that it will be required to continue funding IDT Solution's operating losses and capital expenditure needs for the foreseeable future.

### *Changes in Other Current Assets, Trade Accounts Receivable, Allowance for Doubtful Accounts and Deferred Revenue*

Our other current assets increased from \$78.8 million at July 31, 2002 to \$88.2 million at April 30, 2003, due to increases in inventories and other receivables. Gross trade accounts receivable increased from \$168.2 million at July 31, 2002 to \$172.1 million at April 30, 2003, reflecting primarily the increase in revenues. The average age of our gross accounts receivable, as measured by number of days sales outstanding, has remained constant during the first nine months of Fiscal 2003.

Due to the wide range of collection terms, future trends with respect to days sales outstanding generally depends on the proportion of total sales made to carriers, who are often offered payment terms of 30 days or more, and prepaid calling card distributors, who generally receive payment terms of less than 30 days. As such, the trends in days sales outstanding will depend, in large part, on the mix of wholesale (carrier) versus retail (prepaid calling card distributor) customers. As we anticipate that in the near term we will attempt to continue to secure shorter payment terms from some of our customers, we could experience declines in the average age of our trade accounts receivable throughout the remainder of Fiscal 2003.

Conversely, as we are willing to extend longer payment terms to more credit-worthy customers, an increase in customers belonging to the highest credit classes, as a percentage of total customers, could lead to an increase in days sales outstanding. In addition, if we restricted sales to financially unstable customers, regardless of the credit terms, the proportion of higher-credit class customers will increase further, potentially leading to an increase in the average days sales outstanding. In addition, days sales outstanding for our consumer long distance customers is usually longer than 30 days, given the timing of the billing cycle. As the consumer long distance business continues to grow and to represent a larger portion of our retail telecommunications services revenues and receivables, we expect that total retail days sales outstanding should increase accordingly. Therefore, due to the conflicting nature of the above factors, future trends in days sales outstanding remain difficult to predict, and it is not possible at this time to determine whether recent trends in days sales outstanding will continue.

The allowance for doubtful accounts as a percentage of gross trade accounts receivable decreased from 23.3% at July 31, 2002, to 22.6% at April 30, 2003, primarily as a result of our writing-off, against the allowance for doubtful accounts, certain uncollectible trade accounts receivable from our consumer long distance business.

Deferred revenue as a percentage of total revenues vary from period to period, depending on the mix and the timing of revenues. During the first nine months of Fiscal 2003, we experienced a steady increase in sales of our calling cards due to increased marketing efforts for existing IDT calling cards and the continued strong growth of our European calling card operations. This resulted in a continued increase in deferred revenue. We expect to experience increases in our deferred revenue throughout the remainder of Fiscal 2003, owing to a continued increase in calling card sales.

### *Significant Transactions*

On October 23, 2001, IDT, Liberty Media and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T held an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 48% of Net2Phone's outstanding capital stock. The operating agreement of the LLC provides unilateral liquidation rights to each of its members whereby any member of the LLC may cause the LLC to liquidate and dissolve by providing written notice at any time on or after January 1, 2004 to the other LLC members of its desire to cause such liquidation and dissolution. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 65% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC and is the managing member of the LLC. Under the terms of the Second Amended and Restated Limited Liability Company Agreement of NTOP Holdings (the "LLC Agreement"), we were granted the right to appoint the entire board of managers (including one nominee of Liberty Media) of NTOP Holdings. The board of managers directs the voting of all Net2Phone shares held by NTOP Holdings, thereby giving us effective control over the voting of the Net2Phone shares (but not their disposition, which requires consent of the members) held by NTOP Holdings. Therefore, effective October 23, 2001, we reconsolidated our investment in Net2Phone.

Pursuant to the operating agreement of the LLC, AT&T received 29 Class A units of the LLC, and had the right to put 6 of these units to IDT and 23 of these units to Liberty Media after one year. On October 29, 2002, AT&T exercised its put rights and sold all of its Class A units to IDT and Liberty Media for a nominal amount. As a result of this transaction, AT&T is no

longer a member of the LLC. IDT continues to hold the controlling membership interest in the LLC and is the managing member of the LLC. As of April 30, 2003, IDT's effective equity investment in Net2Phone (through the LLC) was 18.6%. Accordingly, we recorded in minority interests the 81.4% of Net2Phone's results attributable to the remaining shareholders of Net2Phone.

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On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A common stock, at a price of \$283,334 per share, representing an aggregate cash purchase price of \$25.0 million. As a result of this sale of subsidiary stock, our ownership percentage in IDT Media decreased from 100% to 94.4%. We have historically accounted for sales of stock of our subsidiaries in accordance with Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*, which permits us to record the excess of our carrying value in the equity of our subsidiaries as a gain. Accordingly, in connection with this sale, we recognized a gain of \$22.4 million.

On April 25, 2003, all then outstanding stock options exercisable for shares of our common stock (which were exercisable for an aggregate of 1.9 million shares) were amended to instead be exercisable for an equal number of shares of our Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. As a result, we recorded a non-cash compensation charge for the three and nine months ended April 30, 2003 of \$13.7 million for the modification of the options. In addition, on April 25, 2003, the Board of Directors also authorized that all shares of Class B common stock held as treasury stock be allocated for issuance in connection with the above transaction.

### Other Sources and Uses of Resources

We intend to, where appropriate, make strategic acquisitions to expand our telecommunications businesses. These acquisitions could include, but are not limited to, acquisitions of telecommunications equipment, telecommunications network capacity, customer bases or other assets. From time to time, we evaluate potential acquisitions of companies, technologies, products and customer accounts that complement our businesses, particularly in light of the financial distress currently being encountered by many telecommunications firms. These conditions have resulted in the availability for sale of numerous strategic assets and businesses. We will also consider making appropriate acquisitions that would complement our IDT Media segment's portfolio of businesses. Consequently, we used approximately \$10.3 million of our cash during the nine months ended April 30, 2003, to acquire various investments in other companies, compared to \$88.4 used during the nine months ended April 30, 2002. We will continue to evaluate acquisition opportunities as they are made available to us. In considering acquisitions, we will search for opportunities to profitably grow our existing businesses, to add qualitatively to the range of businesses in the IDT portfolio, and to supplement our existing network expansion plans through the timely purchase from third parties of necessary equipment. At this time, we cannot guarantee that we will be presented with acquisition opportunities that meet our return on investment (ROI) criteria, or that our efforts to acquire such companies that meet our criteria will be successful.

We believe that, based upon our present business plan, and due to the large balance of cash, restricted cash, cash equivalents and marketable securities we held as of April 30, 2003, our existing cash resources will be sufficient to meet our currently anticipated working capital and capital expenditure requirements and to fund any potential operating cash flow deficits within any of our divisions for at least the next twelve months. If our growth exceeds current expectations or if we acquire the business or assets of another company, we might need to raise additional capital from equity or debt sources. There can be no assurance that we will be able to raise such capital on favorable terms or at all. If we are unable to obtain such additional capital, we may be required to reduce the scope of our anticipated expansion, which could have a material adverse effect on our business, financial condition and/or results of operations.

The following tables quantify our future contractual obligations and other commercial commitments, which consist primarily of capital and operating leases and standby letters of credit as of April 30, 2003 (in millions):

### Contractual Obligations

#### Payments Due by Period

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	\$ 69.8	\$ 27.6	\$ 30.2	\$ 10.8	\$ 1.2
Operating leases	442.8	87.7	108.6	90.0	156.5
Other long-term obligations (1)	22.5	5.3	—	17.2	—
<b>Total contractual cash obligations</b>	<b>\$535.1</b>	<b>\$ 120.6</b>	<b>\$ 138.8</b>	<b>\$ 118.0</b>	<b>\$157.7</b>

(1) Consists of (i) our \$5.3 million obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common

stock owned by AT&T and (ii) Net2Phone's \$17.2 million obligation to guarantee the value of 0.6 million shares of Net2Phone's common stock to certain former shareholders of Aplio, a Net2Phone subsidiary.



Table of Contents**Other Commercial Commitments****Payments Due by Period**

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	\$31.1	\$ 2.2	\$ 77.7	\$ 20.0	\$ 1.2
Operating leases	3.6	0.2	—	0.3	3.1
Total contractual cash obligations	\$34.7	\$ 2.4	\$ 7.7	\$ 20.3	\$ 4.3

*Foreign Currency Risk*

Revenues from our international operations accounted for approximately 20% of our consolidated revenues for the nine months ended April 30, 2003. A significant portion of these revenues are in denominations other than the U.S. Dollar. Any foreign currency exchange risk that we are subject to is mitigated by our ability to offset the majority of these non dollar-denominated revenues with operating expenses that are paid in the same currencies. As such, the net amount of our exposure to foreign currency exchange rate changes is not material.

*Recently Issued Accounting Pronouncements*

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments Hedging Activities*. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133; in connection with other FASB projects dealing with financial instruments; and regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components.

SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 amends certain other existing pronouncements.

These changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting.

The provisions of this standard are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to existing contracts as well as new contracts entered into after June 30, 2003. We believe that the adoption of this standard will not have a material impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments consist of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

In addition to requirements for classification and measurement of financial instruments, SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in Statement 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. We believe that the adoption of this standard will not have a material impact on our results of operations or financial position.



**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.**

The Securities and Exchange Commission's rule related to market risk disclosure requires that we describe and quantify our potential losses from market risk sensitive instruments attributable to reasonably possible market changes. Market risk sensitive instruments include all financial or commodity instruments and other financial instruments (such as investments and debt) that are

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sensitive to future changes in interest rates, currency exchange rates, commodity prices or other market factors. We are not exposed to market risks from changes in commodity prices. We are exposed to changes in interest rates primarily from our investments in cash equivalents and marketable securities. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes. We do not consider our market risk exposure relating to foreign currency exchange to be material, as we generally have sufficient cash outflows based in these currencies to largely offset the cash inflows based in these currencies, thereby creating a natural hedge. In order to mitigate the risk associated with the small amounts of remaining net foreign exchange exposure, which we experience from time to time, we have, on occasion, entered into foreign exchange hedges. In addition to but separate from our primary business, we hold a small portion of our total asset portfolio in hedge funds for speculative and strategic purposes. As of April 30, 2003, our investments in such hedge funds was approximately \$23.9 million. Investments in hedge funds carry a significant degree of risk, which will depend to a great extent on correct assessments of the future course of price movements of securities and other instruments. There can be no assurance that hedge fund managers will be able to accurately predict these price movements. The securities markets have in recent years been characterized by great volatility and unpredictability. Accordingly, the value of our interests in these funds may go down as well as up and we may not receive, upon redemption, the amounts originally invested.

**Item 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective at recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, the information it is required to disclose in its periodic reports filed or submitted under the Exchange Act.

*Changes in Internal Controls.* Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect such controls.

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**Table of Contents****PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

Certain legal proceedings in which we are involved are described in our Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarter ended January 31, 2003. The following discussion is limited to recent developments concerning our legal proceedings and should be read in conjunction with such earlier Quarterly Report. Unless otherwise indicated, all legal proceedings discussed in our earlier Quarterly Report remain outstanding.

With respect to our complaint against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc., we filed a motion on May 16, 2003 to compel the defendants to produce documents under the crime-fraud exception of the attorney-client and work product privilege. Oral argument on this motion is scheduled for August 7, 2003.

With respect to our statement of claim with the American Arbitration Association naming Telefonica Internacional, S.A. as the Respondent, the parties filed post-hearing briefs on April 4, 2003 and reply briefs were filed on May 8, 2003.

With respect to the summons and complaint filed on or about July 25, 2002 by PT-1 Communications against IDT, the parties held a status conference before the judge on April 3, 2003. IDT filed a motion for a stay to enjoin this proceeding based upon a filing by The Continuing Creditors' Committee of Star Telecommunications, Inc. of a near-identical adversary proceeding against us in the United States Bankruptcy Court for the District of Delaware. The motion was denied on May 15, 2003.

With respect to the complaint filed by Mark B. Aronson in the Court of Common Pleas of Allegheny County, Pennsylvania, seeking certification of a class consisting of consumers who were charged a fee when IDT switched underlying carriers from Global Crossing Ltd. to AT&T, the Court denied the plaintiff's motion to remand the case to the State court and granted our motion to transfer the case to the Federal Communications Commission (the "FCC"). We filed a petition with the FCC on April 30, 2003.

With respect to the Morris Amsel and the Ana Cardoso and Maria Calado matters relating to IDT's calling cards, on May 19, 2003 we filed an application with the Multi-District Litigation Panel seeking to consolidate these matters.

With respect to the suit filed by Winstar against Superior Logistics Management Services, Inc. in the U.S. District Court for the Eastern District of Virginia, the parties entered into a settlement agreement that entitles Winstar to receive 10% of the sales price of any sales of certain equipment by Superior, and provides Winstar with purchase options at 6 and 9 months from May 7, 2003 for various equipment that was the subject of the suit and stored by Superior, at the price of \$0.035 per \$1.00 of the original cost to Superior or its entities that are now in Chapter 7 bankruptcy.

With respect to the Univance Telecommunications, Inc. and Univance Marketing Group, Inc. (collectively the "Univance Debtors") bankruptcy matter, the parties resolved this matter and the Univance Debtors and Winstar entered into an agreement dated March 19, 2003, pursuant to which the Univance Debtors will continue to provide services to Winstar. The parties will seek Bankruptcy Court approval of the agreement.

On or about February 5, 2002, a complaint was filed by Solomon Bitton against IDT in the Superior Court of the State of New Jersey, Bergen County, seeking certification of a class consisting of New Jersey residents who allegedly purchased IDT's pre-paid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The damages sought have not yet been quantified. We served answers to the complaint on April 3, 2003 and are in the process of providing initial discovery responses.

On or about March 12, 2003, a complaint was filed by the Continuing Creditors' Committee of Star Telecommunications, Inc. for itself and on behalf of the Star Creditors' Liquidating Trust ("Star") against IDT in the United States Bankruptcy Court for the District of Delaware. Star seeks (a) to void and recover damages for certain fraudulent transfers of property of Star's bankruptcy estate pursuant to the pre-petition sale of certain assets to IDT, and (b) to recover damages for unjust enrichment pursuant to said sale. We have not been served with the complaint and Star has not taken any action to prosecute the claims against us. We filed a motion for a stay or to enjoin this proceeding based upon the fact that this proceeding is nearly-identical to the adversary proceeding previously filed by PT-1 Communications against IDT in the United States Bankruptcy Court for the Eastern District of New York, which motion was denied.

On April 15, 2003, Network Communications of Indiana ("NCI") filed a four-count complaint in the Superior Court in Marion County, Indiana, against us, seeking \$8.7 million in damages. NCI signed a Non-Exclusive High Volume Independent Agent Marketing Agreement with Winstar Wireless, Inc., on February 1, 1999. On April 18, 2001, Winstar Wireless, Inc., and various other affiliates ("Debtors") filed for Chapter 11 bankruptcy in the United States Bankruptcy Court

for the District of Delaware. On December 19, 2001, an affiliate of ours purchased various assets of the Debtors. NCI alleges that IDT, as a result of allegedly acquiring certain assets of the Debtor including alleged network customer lists: (a) misappropriated NCI's customer

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lists, (b) unlawfully converted NCI's customer lists, (c) unfairly competed with NCI's business, and (d) tortiously interfered with contracts between NCI and NCI's customers. The case has been removed to the United States District Court for the Southern District of Indiana, Indianapolis Division, and we have an extension to answer or otherwise plead until June 23, 2003.

On or about April 26, 2003, we were served with a petition filed by Powell Palmares in the District Court of Nueces County, Texas, 105th Judicial District. We are not the only defendant in this action. In his petition, the plaintiff names numerous additional defendants, including Oblio Telecom, Northern California Telecommunications, Locus Telecommunications, Star Telecom Network, Astral Communications, Pacific Telecard, and Advanced Telecom Solutions. The plaintiff is seeking certification of a class consisting of all persons in Texas who allegedly purchased and used IDT's pre-paid calling cards and made calls to, or from, cellular telephone equipment. The damages sought have not yet been quantified. We filed our answer on June 2, 2003.

We are subject to other legal proceedings and claims, which arise in the ordinary course of our business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of our management, such proceedings, as well as the aforementioned actions, will not have a material adverse effect on our results of operations, cash flows or financial condition.

**Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

During the third quarter of Fiscal 2003, Morris Lichtenstein, Executive Vice President of Business Development of IDT, Marc E. Knoller, Senior Vice President and a director of IDT, and Avi Stokar, Executive Vice President of MIS of our IDT Telecom subsidiary, exchanged 9,000, 25,000 and 11,500 shares of our common stock, respectively, for an equal number of shares of our Class B common stock. These exchanges were made under the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**Item 5. OTHER INFORMATION**

None

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
10.64	1996 Stock Option and Incentive Plan, as amended and restated, of IDT Corporation (incorporated by reference to Form S-8 filed June 5, 2003 file no. 333-105865)
10.65(1)	Amendment to Stock Option Agreement under the Employee Stock Option Program between IDT Corporation and Joyce J. Mason
10.66(1)	Amendment to Stock Option Agreement under the Employee Stock Option Program between IDT Corporation and Marc E. Knoller
10.67(1)	Exchange Agreement, dated March 21, 2003, between IDT Corporation and Morris Lichtenstein
10.68(1)	Exchange Agreement, dated April 8, 2003, between IDT Corporation and Marc E. Knoller
10.69(2)	Settlement Agreement, dated October 10, 2000, between Tyco Group S.a.r.l., TyCom (US) Inc., Tyco Internaional Ltd., Tyco International (US) Inc. and TyCom Ltd., on the one hand, and IDT Europe B.V.B.A. and IDT Corporation, on the other hand
31.1*	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.



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<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
(1)	Previously filed with the original Form 10-Q filed on June 16, 2003
(2)	Previously filed with Amendment No. 1 to the Form 10-Q filed on June 17, 2003.
*	Filed herewith.

(b) Reports on Form 8-K.

None.

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Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**IDT CORPORATION**

September 3, 2003

By: /s/ JAMES A. COURTER

James A. Courter  
Chief Executive Officer and Vice-Chairman  
(Principal Executive Officer)

September 3, 2003

By: /s/ STEPHEN R. BROWN

Stephen R. Brown  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

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**EXHIBIT 31.1****CERTIFICATIONS**

I, James A. Courter, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 3) of IDT Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 3, 2003



/s/ JAMES A. COURTER

James A. Courter  
Chief Executive Officer

EXHIBIT 31.2

## CERTIFICATIONS

I, Stephen R. Brown, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 3) of IDT Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 3, 2003

/s/ STEPHEN R. BROWN

Stephen R. Brown  
Chief Financial Officer

EXHIBIT 32.1

**Certification Pursuant to  
18 U.S.C. Section 1350  
(as Adopted Pursuant to Section 906 of  
the Sarbanes-Oxley Act Of 2002)**

In connection with the Quarterly Report of IDT Corporation (the "Company") on Form 10-Q/A (Amendment No. 3) for the quarter ended April 30, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, James A. Courter, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 3, 2003

/s/ JAMES A. COURTER

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**James A. Courter**  
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to IDT Corporation and will be retained by IDT Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**Certification Pursuant to  
18 U.S.C. Section 1350  
(as Adopted Pursuant to Section 906 of  
the Sarbanes-Oxley Act Of 2002)**

In connection with the Quarterly Report of IDT Corporation (the "Company") on Form 10-Q/A (Amendment No. 3) for the quarter ended April 30, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, Stephen R. Brown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 3, 2003

/s/ STEPHEN R. BROWN

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**Stephen R. Brown**  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to IDT Corporation and will be retained by IDT Corporation and furnished to the Securities and Exchange Commission or its staff upon request.



**2002 SEC Form 10-K**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO  
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2002, OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number: 0-27898

**IDT CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State of other jurisdiction of incorporation or organization)

22-3415036

(I.R.S. Employer Identification Number)

520 Broad Street

Newark, New Jersey 07102

(Address of principal executive offices, including area code)

(973) 438-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share  
Class B Common Stock, par value \$.01 per share  
(Title of class)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on October 25, 2002 of the Common Stock of \$17.66 and of the Class B Common Stock of \$16.30, as reported on the New York Stock Exchange, was approximately \$821 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock (assuming conversion of the Registrant's Class A Common Stock) or Class B Common Stock have been excluded from this computation, in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of October 25, 2002, the Registrant had outstanding 25,020,972 shares of Common Stock, \$.01 par value, 9,816,988 shares of Class A Common Stock, \$.01 par value, and 54,091,855 shares of Class B Common Stock, \$.01 par value. Included in these numbers are 5,419,963 shares of Common Stock and 4,019,163 shares of Class B Common Stock, held by IDT Corporation.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information in the Registrant's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after July 31, 2002, is incorporated by reference in Part II (Item 5) and Part III (Items 10, 11, 12 and 13) of this Form 10-K.

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## PART IV

### Item 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.*

(a) The following documents are filed as part of this Report:

1. Financial Statements.
2. Financial Statement Schedules.

#### Schedule No.

I.

#### Description

Valuation and Qualifying Accounts

### 3. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.01(1)	Restated Certificate of Incorporation of the Registrant.
3.02(1)	By-laws of the Registrant.
3.03(16)	Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant.
10.01(2)	Employment Agreement between the Registrant and Howard S. Jonas.
10.02(18)	1996 Stock Option and Incentive Plan, as amended and restated, of the Registrant.
10.03(3)	Form of Stock Option Agreement under the 1996 Stock Option and Incentive Plan.
10.04(4)	Form of Registration Rights Agreement between certain stockholders and the Registrant.
10.05(1)	Lease of 294 State Street.
10.06(5)	Lease of 190 Main Street.
10.7(6)	Form of Registration Rights Agreement between Howard S. Jonas and the Registrant.
10.8(10)	Employment Agreement between the Registrant and James Courter.
10.9(7)	Agreement between Cliff Sobel and the Registrant.
10.10(10)	Employment Agreement between the Registrant and Hal Brecher.
10.11(10)	Employment Agreement between the Registrant and Howard S. Jonas.
10.12(8)	Agreement and Plan of Merger, dated April 7, 1998, by and among the Registrant, ADM Corp., InterExchange, Inc., David Turock, Eric Hecht, Richard Robbins, Bradley Turock, Wai Nam Tam, Mary Jo Altom and Lisa Mikulyne.
10.13(9)	Securities Purchase Agreement between the Registrant, Carlos Gomez and Union Telecard Alliance, LLC.
10.14(10)	Credit Agreement, dated as of May 10, 1999, by and among the Registrant, various lenders party thereto, Lehman Commercial Paper Inc., CIBC World Markets Corp. and Bankers Trust Company.
10.15(10)	Pledge Agreement, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.16(10)	Security Agreement, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.17(10)	Subsidiaries Guaranty, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.18(10)	Loan Agreement between the Registrant and Stephen Brown.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.19(11)	Internet/Telecommunications Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.20(11)	Joint Marketing Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.21(11)	IDT Services Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.22(11)	Net2Phone Services Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.23(11)	Assignment Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.24(11)	Tax Sharing and Indemnification Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.25(11)	Separation Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.26(11)	Co-location and Facilities Management Services Agreement, dated as of May 20, 1999, by and between Registrant and Net2Phone, Inc.
10.27(12)	Lease of 520 Broad Street, Newark, New Jersey.
10.28(12)	Amendment to Lease of 520 Broad Street, Newark, New Jersey.
10.29(13)	Option Agreement, dated as of March 3, 2000, between IDT Corporation and AT&T Corp.
10.30(14)	Amendment to Option Agreement, dated as of April 5, 2000 between IDT Corporation and AT&T Corp.
10.31(13)	Subscription Agreement, dated as of March 24, 2000, between IDT Corporation and Liberty Media Corporation.
10.32(14)	Amendment to Subscription Agreement, dated as of May 26, 2000, between IDT Corporation and Liberty Media Corporation.
10.33(13)	Letter Agreement, dated as of March 28, 2000, between IDT Corporation, AT&T Corp. and Net2Phone, Inc.
10.34(13)	Letter Agreement, dated as of March 30, 2000, between IDT Corporation, AT&T Corp. and Net2Phone, Inc.
10.35(15)	Conversion, Termination and Release Agreement, dated as of April 30, 2000, between IDT Corporation, Terra Networks, S.A., Terra Networks USA, Inc., Terra Networks Access Services USA LLC and Terra Networks Interactive Services USA LLC.
10.36(19)	Stock Exchange Agreement, dated as of April 18, 2001, by and among IDT Investments Inc., IDT Corporation, IDT America, Corp., 225 Old NB Road, Inc., 226 Old NB Road, Inc., 60 Park Place Holding Company, Inc., Liberty Media Corporation, Microwave Holdings, L.L.C. and Liberty TP Management, Inc.
10.37(19)	Stockholders Agreement, dated as of November 26, 1997, by and among Teligent, Inc., Microwave Services, Inc., Telcom-DTS Investors, L.L.C. and NTTA&T Investment Inc. (Incorporated by reference to Exhibit 2 to Schedule 13D, filed by The Associated Group, Inc. and Microwave Services, Inc. on December 8, 1997 with respect to securities of Teligent, Inc.)
10.38(19)	Registration Rights Agreement, dated as of March 6, 1998, by and between Teligent, Inc. and Microwave Services, Inc. (Incorporated by reference to Exhibit 6 to Amendment No. 1 to Schedule 13D, filed by The Associated Group, Inc. and Microwave Services, Inc. on March 9, 1998 with respect to securities of Teligent, Inc.)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.39(19)	Stockholders Agreement, dated as of January 13, 2000, by and among Alex J. Mandl, Liberty Media Corporation, Telcom-DTS Investors, L.L.C. and Microwave Services, Inc. (Incorporated by reference to Exhibit 7(i) to Schedule 13D, filed by Liberty AGI, Inc. on January 24, 2000 with respect to securities of Teligent, Inc.)
10.40(20)	Amendment to the Employment Agreement between the Registrant and James A. Courter
10.41(20)	Amendment No. 2 to the Employment Agreement between the Registrant and James A. Courter
10.42(21)	Asset Purchase Agreement, dated December 18, 2001, between IDT Winstar Acquisition, Inc., Winstar Communications, Inc. and the subsidiaries of Winstar listed on Appendix 1 thereto.
10.43(22)	Employment Agreement between the Registrant and Howard S. Jonas.
10.44(23)	Subscription Agreement, dated as of August 11, 2000, by and between Net2Phone and AT&T.
10.45(23)	Stock Purchase Agreement, dated as of August 11, 2000, by and between AT&T, IDT and IDT Investments.
10.46(23)	Voting Agreement, dated as of August 11, 2000, by and between ITelTech and IDT Investments.
10.47(24)	Limited Liability Company Agreement, dated as of October 19, 2001, of Net2Phone Holdings, by IDT D-U
10.48(24)	Amended and Restated Limited Liability Company Agreement, dated as of October 19, 2001, of Net2Phone Holdings, by and among AT&T, ITelTech, IDT and IDT D-U
10.49(24)	Second Amended and Restated Limited Liability Company Agreement, dated as of October 19, 2001, of Net2Phone Holdings, by and among AT&T, ITelTech, IDT, IDT D-U, IDT Investments, Liberty Media and LMC
10.50(25)	Stockholders Agreement, dated as of May 13, 1999, by and among IDT, Clifford M. Sobel, Net2Phone and the additional investors listed on Schedule A thereto.
10.51(26)	Amended and Restated Limited Liability Company Agreement, dated as of November 8, 2001, of IT Stock, by Net2Phone Holdings.
10.52(26)	Amendment No. 1 to the Second Amended and Restated Limited Liability Company Agreement, dated as of October 31, 2001, of Net2Phone Holdings, by and among AT&T, ITelTech, IDT, IDT D-U, IDT Investments, Liberty Media and LMC.
10.53*	Amendment No. 1 to Securities Purchase Agreement, dated April 24, 2002, by and among the Registrant, UTCG Holdings LLC and Union Telecard Alliance, LLC.
10.54*	Amended and Restated Operating Agreement of Union Telecom Alliance, LLC, dated April 24, 2002, by and among UTCG Holdings LLC, IDT Domestic-Union, LLC, the Registrant and Union Telecard Alliance, LLC.
10.55*	Amended and Restated Distribution Agreement, dated April 24, 2002, by and between IDT Netherlands, B.V. and Union Telecard Alliance, LLC.
10.56*	Unit Purchase Agreement, dated April 10, 2002, by and among WCI Capital Corp., Dipchip Corp., the Registrant and Winstar Holdings, LLC.
10.57*	Lock-up, Registration Rights and Exchange Agreement, dated June 6, 2000, by and between the Registrant and Liberty Media Corporation.
10.58*	Letter Agreement, dated April 22, 2002, by and between Charles Garner and the Registrant.
10.59*	Employment Agreement, dated February 4, 2002, by and between the Registrant and E. Brian Finkelstein.



<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.60*	Amendment to the Employment Agreement, dated October 24, 2002, between the Registrant and E. Brian Finkelstein.
21.01*	Subsidiaries of the Registrant.
23.01*	Consent of Ernst & Young LLP.
99.1(a)*	Certification of Chief Executive Officer
99.1(b)*	Certification of Chief Financial Officer

\* filed herewith

- (1) Incorporated by reference to Form S-1 filed February 21, 1996 file no. 333-00204.
- (2) Incorporated by reference to Form S-1 filed January 9, 1996 file no. 333-00204.
- (3) Incorporated by reference to Form S-8 filed January 14, 1996 file no. 333-19727.
- (4) Incorporated by reference to Form S-1 filed March 8, 1996 file no. 333-00204.
- (5) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1997, filed October 29, 1997.
- (6) Incorporated by reference to Form S-1 filed March 14, 1996 file no. 333-00204.
- (7) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1997, filed February 2, 1998.
- (8) Incorporated by reference to Form 8-K filed April 22, 1998.
- (9) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1998, filed December 4, 1998.
- (10) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1999, filed March 17, 1999.
- (11) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1999, filed June 14, 1999.
- (12) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1999, filed November 4, 1999.
- (13) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2001, filed March 12, 2000.
- (14) Incorporated by reference to Form 8-K filed March 31, 2000.
- (15) Incorporated by reference to Schedule 14C filed June 12, 2000.
- (16) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2000, filed June 14, 2000.
- (17) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2000, filed December 15, 2000.
- (18) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 2001, filed March 19, 2001.
- (19) Incorporated by reference to Schedule 13D filed on April 30, 2001.
- (20) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2001, filed December 17, 2001.
- (21) Incorporated by reference to Form 8-K filed January 3, 2002.
- (22) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2002, filed June 14, 2002.
- (23) Incorporated by reference to Schedule 13D filed on August 21, 2000, with respect to Net2Phone, by IDT Investments, IDT and Howard S. Jonas.
- (24) Incorporated by reference to Schedule 13D, filed on October 25, 2001, with respect to Net2Phone, by Net2Phone Holdings, L.L.C., IDT Domestic-Union, LLC, IDT Investments Inc., IDT Nevada Holdings, Inc., IDT Domestic Telecom, Inc., IDT Telecom, Inc., IDT Corporation, Howard S. Jonas, ITelTech, LLC and AT&T Corp.
- (25) Incorporated by reference to Form S-1/A of Net2Phone filed June 20, 1999.
- (26) Incorporated by reference to Schedule 13D, filed on November 15, 2001, with respect to Net2Phone, by IT Stock, Net2Phone Holdings, IDT D-U, IDT Investments, IDT Nevada, IDT D-T, IDT Telecom, IDT, Howard S. Jonas, ITelTech and AT&T.

(b) Reports on Form 8-K.

On August 28, 2002, the Registrant filed Amendment No.1 to its Current Report on Form 8-K originally filed on January 3, 2002.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

IDT CORPORATION

By: /s/ JAMES A. COURTER  
James A. Courter  
Vice Chairman and Chief Executive Officer

Date: October 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Titles</u>	<u>Date</u>
<u>/s/ HOWARD S. JONAS</u> Howard S. Jonas	Chairman	October 29, 2002
<u>/s/ JAMES A. COURTER</u> James A. Courter	Vice Chairman and Chief Executive Officer (Principal Executive Officer)	October 29, 2002
<u>/s/ STEPHEN R. BROWN</u> Stephen R. Brown	Chief Financial Officer and Director (Principal Financial Officer)	October 29, 2002
<u>/s/ MARCELO FISCHER</u> Marcelo Fischer	Chief Accounting Officer and Controller (Principal Accounting Officer)	October 29, 2002
<u>/s/ MICHAEL FISCHBERGER</u> Michael Fischberger	Chief Operating Officer and Director	October 29, 2002
<u>/s/ JOYCE J. MASON</u> Joyce J. Mason	Director	October 29, 2002
<u>/s/ MARC E. KNOLLER</u> Marc E. Knoller	Director	October 29, 2002
<u>/s/ MOSHE KAGANOFF</u> Moshe Kaganoff	Director	October 29, 2002
<u>/s/ GEOFFREY ROCHWARGER</u> Geoffrey Rochwarger	Director	October 29, 2002
<u>/s/ MEYER A. BERMAN</u> Meyer A. Berman	Director	October 29, 2002
<u>/s/ J. WARREN BLAKER</u> J. Warren Blaker	Director	October 29, 2002

<u>/s/ SAUL K. FENSTER</u> Saul K. Fenster	Director	October 29, 2002
<u>/s/ MICHAEL J. LEVITT</u> Michael J. Levitt	Director	October 29, 2002
<u>/s/ WILLIAM ARTHUR OWENS</u> William Arthur Owens	Director	October 29, 2002
<u>/s/ PAUL REICHMANN</u> Paul Reichmann	Director	October 29, 2002
<u>/s/ WILLIAM F. WELD</u> William F. Weld	Director	October 29, 2002

## CERTIFICATIONS

I, James A. Courter, Chief Executive Officer of IDT Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of IDT Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ JAMES A. COURTER

James A. Courter

## CERTIFICATIONS

I, Stephen R. Brown, Chief Financial Officer of IDT Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of IDT Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ STEPHEN R. BROWN

Stephen R. Brown

**IDT CORPORATION**  
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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
IDT Corporation

We have audited the accompanying consolidated balance sheets of IDT Corporation (the "Company") as of July 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 31, 2001 and 2002 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

New York, New York  
October 24, 2002

/s/ ERNST & YOUNG LLP

**IDT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	July 31	
	2001	2002
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,091,071	\$ 351,248
Marketable securities	3,489	658,731
Trade accounts receivable, net of allowance for doubtful accounts of \$22,508 at July 31, 2001 and \$38,893 at July 31, 2002	116,759	126,153
Other current assets	32,413	65,291
Total current assets	1,243,732	1,201,423
Property, plant and equipment, net	224,042	250,631
Goodwill	178,293	32,702
Licenses and other intangibles, net	19,511	25,503
Investments	60,732	58,903
Other assets	155,279	38,758
Total assets	<u>\$1,881,589</u>	<u>\$1,607,920</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 163,313	\$ 121,529
Accrued expenses	54,893	124,437
Deferred revenue	71,387	112,183
Capital lease obligations—current portion	20,927	22,960
Other current liabilities	17,819	11,866
Total current liabilities	328,339	392,975
Deferred tax liabilities, net	390,914	241,973
Capital lease obligations—long-term portion	50,179	45,398
Other liabilities	14,502	3,088
Total liabilities	783,934	683,434
Minority interests	21,419	54,956
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—10,000,000; no shares issued	—	—
Common stock, \$.01 par value; authorized shares—100,000,000; 22,791,789 and 19,568,634 shares issued and outstanding in 2001 and 2002, respectively	228	196
Class A common stock, \$.01 par value; authorized shares—35,000,000; 9,816,988 shares issued and outstanding in 2001 and 2002	98	98
Class B common stock, \$.01 par value; authorized shares—100,000,000; 39,291,411 and 49,990,681 shares issued and outstanding in 2001 and 2002, respectively	393	500
Additional paid-in capital	494,093	606,387
Treasury stock, at cost	(138,087)	(153,713)
Accumulated other comprehensive loss	(2,575)	(2,675)
Retained earnings	722,086	418,737
Total stockholders' equity	1,076,236	869,530
Total liabilities and stockholders' equity	<u>\$1,881,589</u>	<u>\$1,607,920</u>

See accompanying notes to consolidated financial statements.



**IDT CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year ended July 31		
	2000	2001	2002
	(in thousands, except per share data)		
Revenues .....	\$1,093,912	\$1,230,950	\$1,531,614
Costs and expenses:			
Direct cost of revenues (exclusive of items shown below) .....	918,257	1,066,845	1,205,003
Selling, general and administrative .....	343,702	337,107	370,577
Depreciation and amortization .....	48,564	60,351	66,016
Impairment charges .....	—	199,357	114,310
Total costs and expenses .....	1,310,523	1,663,660	1,755,906
Loss from operations .....	(216,611)	(432,710)	(224,292)
Interest income, net .....	7,231	52,768	21,757
Other income (expense):			
Equity in loss of affiliates .....	(6,289)	(75,066)	(43,989)
Gain on sales of subsidiary stock .....	350,344	1,037,726	—
Investment and other income (expense), net .....	258,218	164,762	(12,117)
Income (loss) before income taxes, minority interests, extraordinary item and cumulative effect of accounting change .....	392,893	747,480	(258,641)
Minority interests .....	(59,336)	5,726	22,070
Provision for (benefit from) income taxes .....	218,403	209,395	(124,345)
Income (loss) before extraordinary item and cumulative effect of accounting change .....	233,826	532,359	(156,366)
Extraordinary loss on retirement of debt, net of income taxes of \$1,894 .....	(2,976)	—	—
Cumulative effect of accounting change, net of income taxes of \$3,525 .....	—	—	(146,983)
Net income (loss) .....	\$ 230,850	\$ 532,359	\$ (303,349)
Earnings per share:			
Income (loss) before extraordinary item and cumulative effect of accounting change:			
Basic .....	\$ 3.34	\$ 7.79	\$ (2.08)
Diluted .....	\$ 3.11	\$ 7.12	\$ (2.08)
Extraordinary loss on retirement of debt, net of income taxes:			
Basic .....	\$ (0.04)	\$ —	\$ —
Diluted .....	\$ (0.04)	\$ —	\$ —
Cumulative effect of accounting change, net of income taxes:			
Basic .....	\$ —	\$ —	\$ (1.96)
Diluted .....	\$ —	\$ —	\$ (1.96)
Net income (loss):			
Basic .....	\$ 3.30	\$ 7.79	\$ (4.04)
Diluted .....	\$ 3.07	\$ 7.12	\$ (4.04)
Weighted-average number of shares used in calculation of earnings per share:			
Basic .....	69,933	68,301	75,108
Diluted .....	75,239	74,786	75,108

See accompanying notes to consolidated financial statements.

# IDT CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
<b>Balance at July 31, 1999</b>											
Exercise of stock options	23,982,854	\$240	10,029,758	\$100	34,012,612	\$340	\$317,022	\$	\$	\$(41,123)	\$276,579
Income tax benefit from stock options exercised	1,310,700	13	—	—	1,310,700	13	14,508	—	—	—	14,534
Conversion of Class A common stock to common stock	59,525	—	—	—	—	—	11,262	—	—	—	11,262
Exercise of warrants	19,963	—	(59,525)	—	—	—	—	—	—	—	—
Modification of stock options	—	—	—	—	19,963	—	117	—	—	—	117
Issuance of common stock and Class B common stock	—	—	—	—	—	—	985	—	—	—	985
Change in unrealized gain (loss) in available-for-sale securities	3,728,949	37	—	—	3,728,949	37	128,574	—	—	—	128,648
Foreign currency translation adjustment	—	—	—	—	—	—	—	(94,044)	—	—	(94,044)
Repurchase of common stock and Class B common stock	(3,142,735)	(30)	—	—	(3,142,735)	(31)	(101,822)	1,391	—	—	(1,391)
Net income for the year ended July 31, 2000	—	—	—	—	—	—	—	230,850	—	—	(101,883)
Comprehensive income	—	—	—	—	—	—	—	138,197	—	—	230,850
<b>Balance at July 31, 2000</b>											
Exercise of stock options	25,959,256	260	9,970,233	100	35,929,489	359	370,646	—	(92,653)	189,727	468,439
Income tax benefit from stock options exercised	698,451	7	—	—	343,000	4	6,872	—	—	—	6,883
Conversion of Class A common stock to common stock	—	—	—	—	—	—	2,676	—	—	—	2,676
Issuance of stock options	153,245	2	(153,245)	(2)	—	—	—	—	—	—	—
Modification of stock options	—	—	—	—	—	—	2,000	—	—	—	2,000
Issuance of Class B common stock	—	—	—	—	—	—	3,082	—	—	—	3,082
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	7,038,085	71	106,497	—	—	—	106,568
Foreign currency translation adjustment	—	—	—	—	—	—	—	89,148	—	—	89,148
Repurchase of common stock and Class B common stock	(4,019,163)	(41)	—	—	(4,019,163)	(41)	—	930	—	—	930
Net income for the year ended July 31, 2001	—	—	—	—	—	—	2,320	(138,087)	—	—	(135,849)
Comprehensive income	—	—	—	—	—	—	—	532,359	—	—	532,359
<b>Balance at July 31, 2001</b>											
Exercise of stock options	22,791,789	228	9,816,988	98	39,291,411	393	494,093	(138,087)	622,437	722,086	1,076,236
Income tax benefit from stock options exercised	1,906,594	19	—	—	4,497,114	45	53,860	—	(2,575)	—	53,924
Conversion of common stock to Class B common stock	(3,728,949)	(37)	—	—	3,810,265	38	21,601	—	—	—	21,601
Modification of stock options	—	—	—	—	—	—	(1)	—	—	—	—
Issuance of common stock for acquisitions	—	—	—	—	—	—	1,894	—	—	—	1,894
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	2,391,891	24	34,940	—	—	—	34,964
Foreign currency translation adjustment	—	—	—	—	—	—	—	(1,064)	—	—	(1,064)
Repurchase of common stock	(1,400,800)	(14)	—	—	—	—	—	964	—	—	964
Net loss for the year ended July 31, 2002	—	—	—	—	—	—	—	(15,626)	—	—	(15,640)
Comprehensive loss	—	—	—	—	—	—	—	(303,349)	—	—	(303,349)
<b>Balance at July 31, 2002</b>											
	19,568,634	\$196	9,816,988	\$98	49,990,681	\$500	\$606,387	\$(153,713)	\$(303,449)	\$418,737	\$869,530

See accompanying notes to consolidated financial statements.

**IDT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended July 31		
	2000	2001	2002
	(in thousands)		
<b>Operating activities</b>			
Net income (loss)	\$ 230,850	\$ 532,359	\$ (303,349)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	48,564	60,351	66,016
Impairment charges	—	199,357	114,310
Extraordinary loss on retirement of debt before income taxes	4,870	—	—
Cumulative effect of accounting change before income taxes	—	—	150,508
Minority interests	(59,336)	5,726	22,070
Price guarantee of Class B common stock	—	—	5,310
Deferred tax liabilities	216,903	204,188	(127,342)
Issuance of common stock to charitable foundation	—	26,378	—
Net realized (gains)/losses from sales of marketable securities and investments	(261,025)	148,724	6,807
Equity in loss of affiliates	6,289	75,066	43,989
Non-cash compensation	42,917	3,082	1,894
Gain on Tycom settlement	—	(313,486)	—
Gain on sales of subsidiary stock	(350,344)	(1,037,726)	—
Changes in assets and liabilities:			
Trade accounts receivable	(52,643)	36,029	29,151
Other assets	(28,194)	14,234	(4,364)
Trade accounts payable, accrued expenses and other liabilities	90,053	64,675	(23,238)
Deferred revenue	34,026	7,271	39,981
Net cash provided by (used in) operating activities	(77,070)	26,228	21,743
<b>Investing activities</b>			
Purchases of property, plant and equipment	(101,192)	(106,513)	(39,245)
Issuance of notes receivable	—	(12,089)	(8,543)
Investments and acquisitions, net of cash acquired	(38,803)	(73,722)	(81,398)
Collection of notes receivable	9,524	—	—
Sales of marketable securities	—	164,052	742,866
Purchases of marketable securities	(7,059)	—	(1,399,171)
Net proceeds from sale of equity interests in subsidiary	115,434	1,042,113	—
Net cash (used in) provided by investing activities	(22,096)	1,013,841	(785,491)
<b>Financing activities</b>			
Proceeds from exercise of stock options for Net2Phone	8,172	—	—
Distributions to minority shareholder of a subsidiary	(3,177)	(18,908)	(19,018)
Proceeds from borrowings	13,898	—	—
Proceeds from exercise of warrants	117	—	—
Proceeds from exercise of stock options	14,534	6,883	53,924
Repayment of capital lease obligations	(9,833)	(14,736)	(19,033)
Repayment of borrowings	(108,146)	(26,054)	(6,308)
Proceeds from issuance of common stock and Class B common stock	128,648	74,787	—
Proceeds from offerings of common stock by Net2Phone	261,189	—	—
Collection of loans to stockholders by Net2Phone	623	—	—
Proceeds from sale of subsidiary stock	5,000	—	30,000
Proceeds from issuance of stock options	—	2,000	—
Repurchases of common stock and Class B common stock	(101,883)	(135,849)	(15,640)
Net cash provided by (used in) financing activities	209,142	(111,877)	23,925
Net (decrease) increase in cash	109,976	928,192	(739,823)
Cash and cash equivalents at beginning of year	52,903	162,879	1,091,071
Cash and cash equivalents at end of year	\$ 162,879	\$ 1,091,071	\$ 351,248
<b>Supplemental disclosure of cash flow information</b>			
Cash payments made for interest	\$ 10,074	\$ 7,997	\$ 5,739
Cash payments made for income taxes	\$ 1,050	\$ 5,963	\$ 12,176
<b>Supplemental schedule of non-cash investing and financing activities</b>			
Purchases of property, plant and equipment through capital lease obligations	\$ 45,541	\$ 27,010	\$ 19,311
Exchange of Net2Phone common stock for shares of Yahoo! Inc.	\$ —	\$ 150,000	\$ —
Issuance of Class B common stock for acquisitions	\$ —	\$ —	\$ 34,964

See accompanying notes to consolidated financial statements.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**July 31, 2002**

**1. Summary of Significant Accounting Policies**

*Description of Business*

IDT Corporation ("IDT" or the "Company") is a facilities-based multinational communications company that provides services and products to retail and wholesale customers worldwide, including prepaid debit and rechargeable calling cards, consumer long distance services, and wholesale carrier services. The Company also operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

Winstar Holdings ("Winstar"), a wholly owned subsidiary of IDT, is a broadband and telephony service provider to commercial and governmental customers. Through its fixed-wireless and fiber infrastructure, Winstar offers local and long distance phone services, and high speed Internet and data communications solutions.

On May 4, 2001, the Company declared a stock dividend of one share of Class B common stock for every one share of common stock, Class A common stock and Class B common stock. IDT distributed the dividend shares on May 31, 2001 to shareholders of record on May 14, 2001. The stock dividend has been accounted for as a stock split and all references to the number of common shares, per common share amounts and stock options have been restated to give retroactive effect to the stock dividend for all periods presented. The Class B common stock commenced trading on the New York Stock Exchange on June 1, 2001 under the ticker symbol "IDT. B".

*Investment in Net2Phone*

Until August 2000, the Company also provided Internet telephony services through its majority owned subsidiary Net2Phone, Inc. ("Net2Phone"). On August 11, 2000, the Company completed the sale of 14.9 million shares of its holdings of Net2Phone's Class A common stock, at a price of \$75 per share, to ITelTech, LLC ("ITelTech"), a Delaware limited liability company controlled by AT&T Corporation ("AT&T"). In addition, ITelTech purchased four million newly-issued shares of Class A common stock from Net2Phone at a price of \$75 per share. These transactions reduced the voting stake of IDT in Net2Phone from approximately 56% to 21% and its economic stake in Net2Phone from approximately 45% to 16%. In recognition of these transactions, the Company recorded a gain on sales of subsidiary stock of \$1.038 billion during the year ended July 31, 2001, and deconsolidated Net2Phone effective August 11, 2000. Accordingly, the Company accounted for its investment in Net2Phone subsequent to the deconsolidation using the equity method of accounting.

On October 23, 2001, IDT, Liberty Media Corporation ("Liberty Media") and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T now holds an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 46% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 63% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC and is the managing member of the LLC. Through July 31, 2002, the Company accounted for its investment in the LLC using the equity method since its control of the LLC was deemed to be temporary due to unilateral liquidation rights held by each of the LLC members. As of July 31, 2002, IDT's equity investment in Net2Phone was 19.2%.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long Lived Assets to be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, *Reporting the Results of Operations for a Disposal of a Segment of a Business*. SFAS No. 144 also amends Accounting Research Bulletins ("ARB" 51), *Consolidated Financial Statements*, as amended by SFAS No. 94, *Consolidation of ALL Majority-Owned Subsidiaries*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. IDT will adopt SFAS No. 144 as of August 1, 2002, and will thus no longer

# IDT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

account for its investment in Net2Phone under the equity method of accounting. Therefore, effective August 1, 2002, Net2Phone will be reconsolidated. The consolidation will result in the inclusion of IDT's and Net2Phone's results of operations and financial position beginning August 1, 2002. This change in accounting will not change the net income or loss that would have been reported had the Company continued to account for its investment in Net2Phone under the equity method of accounting. Summarized financial information for Net2Phone as of and for the year ended July 31 is as follows:

	2001	2002
	(in thousands)	
Total current assets .....	\$ 287,572	\$ 114,138
Total assets .....	411,403	171,696
Working capital .....	218,100	60,321
Revenues .....	150,198	137,855
Loss from operations .....	(240,210)	(257,794)

### *Basis of Consolidation and Accounting for Investments*

The consolidated financial statements include the accounts of IDT and all companies in which IDT has a controlling voting interest that is not temporary ("subsidiaries"), as if IDT and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which IDT has significant influence, but less than and other than temporary controlling voting interest, are accounted for using the equity method of accounting. Investments in companies in which IDT does not have an other than temporary controlling interest or an ownership and voting interest so large as to exert significant influence are accounted for at market value if the investments are publicly traded and there are no resale restrictions, or at cost, if the sale of a publicly-traded investment is restricted or if the investment is not publicly traded. Due to the adoption of SFAS No. 144, effective August 1, 2002, IDT will consolidate all companies in which it has a controlling voting interest, regardless of whether that control is temporary.

The effect of any changes in IDT's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included in gain on sales of subsidiary stock.

### *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year's presentation.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Revenue Recognition*

Communications services are recognized as revenue when services are provided. Revenue on sales of prepaid calling cards is deferred upon activation of the cards and recognized as the card balances are decremented based on minute usage and service charges. Unused balances are recognized as revenue upon expiration of the calling cards, which is generally the later of six months from the date of first use and twelve months from activation.

Revenues at our Winstar segment related to high-speed Internet and data services and local and long-distance voice services are recognized when services are provided.

*Purchase of Network Capacity*

Purchases of network capacity pursuant to Indefeasible Right of Use ("IRU") agreements are capitalized at cost and amortized over the term of the capacity agreement, which is generally 15 years. Historically, we have not been a provider of network capacity.

*Direct Cost of Revenues*

Direct cost of revenues consists primarily of termination costs, toll-free costs, and network costs—including customer/carrier interconnect charges and leased fiber circuit charges. Direct cost of revenues also includes connectivity costs for the Winstar's fixed-wireless network backbone and lease payments for Winstar's network of buildings. Direct cost of revenues excludes depreciation and amortization expense.

*Property, Plant and Equipment*

Equipment, buildings, and furniture and fixtures are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range as follows: equipment—5 to 7 years; buildings—40 years; and furniture and fixtures—5 to 7 years. Leasehold improvements are depreciated using the straight line method over the term of their lease or their estimated useful lives, whichever is shorter.

*Advertising Expense*

The majority of IDT's advertising expense relates to its consumer long distance business. Most of the advertisements are in print or television media, with expenses recorded as they are incurred. Some of the advertising for the consumer long distance business is also done on a cost-per-acquisition basis, where the Company pays the provider of advertising based on a fixed amount per each customer who becomes a subscriber of its services. In such cases, the expenses are recorded based on the number of customers who were added during the period in question.

For the years ended July 31, 2000, 2001 and 2002, advertising expense totaled approximately \$46.7 million, \$17.1 million and \$16.0 million, respectively.

During the year ended July 31, 2000, the Company incurred approximately \$28.0 million of costs to terminate advertising arrangements. These advertising termination costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. No advertising termination costs were incurred for the years ended July 31, 2001 and 2002.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Software Development Costs*

Costs for the internal development of new software products and substantial enhancements to existing software products to be sold are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 2000, 2001 and 2002, research and development costs totaled approximately \$4.7 million, \$2.5 million and \$1.0 million, respectively.

*Capitalized Internal Use Software Costs*

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These costs consist of payments made to third parties and the salaries of employees working on such software development. For the years ended July 31, 2000, 2001 and 2002, the Company has capitalized \$8.6 million, \$2.5 million and \$1.4 million, respectively, of internal use software costs as computer software.

*Repairs and Maintenance*

We charge the cost of repairs and maintenance, including the cost of replacing minor items not constituting substantial betterment, to selling, general and administrative expenses as these costs are incurred.

*Long-Lived Assets*

In accordance with SFAS No. 121, the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The analysis of the recoverability utilizes undiscounted cash flows. The measurement of the loss, if any, will be calculated as the amount by which the carrying amount of the asset exceeds the fair value.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value. At July 31, 2001 and 2002, the Company had 89% and 60%, respectively, of its cash and cash equivalents in three and two financial institutions, respectively.

*Goodwill*

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but are subject to impairment tests, performed at least annually, in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

*Other Intangibles*

Licenses are amortized over 5 years using the straight-line method. Costs associated with obtaining the right to use trademarks and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents. Acquired core technology is amortized over 3 to 5 years. The Company systematically reviews the recoverability of its acquired licenses and other intangible assets to determine whether an impairment has occurred. Upon determination that the carrying value of acquired licenses

## IDT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and other intangible assets will not be recovered based on the undiscounted future cash flows of the acquired business, the carrying value of such acquired licenses and other intangible assets would be deemed impaired and would be reduced by a charge to operations in the amount that the carrying value exceeds the fair value.

#### *Foreign Currency Translation*

Assets and liabilities of foreign subsidiaries denominated in foreign currencies at July 31 are translated at year-end rates of exchange and monthly results of operations are translated at the average rates of exchange for that month. Gains or losses resulting from translating foreign currency financial statements are recorded as a separate component of accumulated other comprehensive loss in stockholders' equity.

#### *Income Taxes*

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependant upon the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### *Earnings Per Share*

Basic earnings per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of convertible securities, stock options, warrants, contingently issuable shares and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

#### *Vulnerability Due to Certain Concentrations*

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, marketable securities and trade accounts receivable. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers in various geographic regions comprising the Company's customer base. No single customer accounted for more than 10% of consolidated revenues in Fiscal 2002. However, our 5 largest customers accounted for 15.2% of consolidated revenues in Fiscal 2002. This concentration of revenues increases our risk associated with nonpayment by these customers.

The Company is subject to risks associated with its international operations, including changes in exchange rates, difficulty in trade accounts receivable collection and longer payment cycles.

Management regularly monitors the creditworthiness of its domestic and international customers and believes that it has adequately provided for any exposure to potential credit losses.



**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Fair Value of Financial Instruments*

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At July 31, 2002, the carrying value of the Company's trade accounts receivable, other current assets, trade accounts payable, accrued expenses, deferred revenue, capital lease obligations and other current liabilities approximate fair value.

*Stock Based Compensation*

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company applies APB No. 25 in accounting for its stock option plans and, accordingly, compensation cost is recognized for its stock options only if it relates to non-qualified stock options for which the exercise price was less than the fair market value of the Company's common stock or Class B common stock as of the date of grant. The compensation cost of these grants is amortized on a straight-line basis over their vesting periods. The Company follows the disclosure only provisions of SFAS 123 and provides pro forma disclosures of net income (loss) and net income (loss) per share as if the fair value-based method of accounting for stock options, as defined in SFAS 123, had been applied.

*Recently Issued Accounting Standards*

In June 2001, the FASB issued SFAS No. 143, *Accounting for Retirement Obligations* ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. The Company is required to adopt SFAS 143 on August 1, 2002 and expects that the provisions will not have a material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS 145"). SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. SFAS 145 rescinds Statement No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, will now be used to classify those gains and losses because Statement No. 4 has been rescinded. Statement No. 44 was issued to establish accounting requirements for the effects of transition to provisions of the Motor Carrier Act of 1980. Because the transition has been completed, Statement No. 44 is no longer necessary.

SFAS 145 amends Statement No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects. SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. IDT is required to adopt SFAS 145, effective for Fiscal 2003. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented that does not meet the criteria of APB Opinion No. 30, will be reclassified to conform with the provisions of SFAS 145. The Company does not expect the adoption of SFAS 145 will have a material impact on its consolidated financial statements.

# **IDT CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). SFAS 146 requires Companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3). SFAS 146 replaces EITF 94-3. The Statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 will have a material impact on its consolidated financial statements.

### **2. Marketable Securities**

The Company classifies all of its marketable securities as "available-for-sale securities." Such marketable securities consist primarily U.S. Government Agency Obligations, which are stated at market value, with unrealized gains and losses in such securities reflected, net of tax, as "other comprehensive income (loss)" in stockholders' equity. The Company intends to maintain a liquid portfolio to take advantage of investment opportunities; therefore, all marketable securities are classified as "short-term." The following is a summary of marketable securities as of July 31, 2002:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(in thousands)		
<b>Short-term</b>				
Available-for-sale securities:				
U.S. Government Agency Obligations .....	\$628,635	\$3,490	\$ —	\$632,125
Other marketable securities .....	<u>32,269</u>	<u>—</u>	<u>(5,663)</u>	<u>26,606</u>
	<u>\$660,904</u>	<u>\$3,490</u>	<u>\$(5,663)</u>	<u>\$658,731</u>

The following is a summary of marketable securities as of July 31, 2001:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(in thousands)		
<b>Short-term</b>				
Available-for-sale securities:				
U.S. Government Agency Obligations .....	\$1,150	\$—	\$ (33)	\$1,117
Other marketable securities .....	<u>6,318</u>	<u>—</u>	<u>(3,946)</u>	<u>2,372</u>
	<u>\$7,468</u>	<u>\$—</u>	<u>\$(3,979)</u>	<u>\$3,489</u>

Sales and realized (gains) losses from the sale of available-for-sale securities for the years ended July 31, 2000, 2001 and 2002 amounted to approximately \$104.2 million and \$(28.3) million, \$162.0 million and \$126.0 million, and \$742.9 million and \$(1.5) million, respectively. The Company uses the specific identification method in computing the gross realized gains and gross realized losses on the sales of marketable securities.

During Fiscal 2000, IDT sold approximately \$55.0 million of held-to-maturity securities prior to their maturity dates and recorded a loss of approximately \$1.2 million. The securities were sold to fund certain transactions. In connection with these sales, marketable securities with a cost basis of approximately \$22.0 million were reclassified as available-for-sale and through July 31, 2000, unrealized losses of approximately \$0.8 million were included in accumulated other comprehensive loss.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Terra Networks Transaction*

In October 1999, IDT entered into a joint venture agreement with Terra Networks, S.A. ("Terra") pursuant to which the two parties formed two limited liability companies to provide Internet services and products to customers in the United States. One company was formed to provide Internet access to customers and the other company was formed to develop and manage an Internet portal that would provide content-based Internet services. IDT's 49% interest in the Internet access company was accounted for using the equity method of accounting. The equity method was used since IDT had significant influence, but less than a controlling voting interest. IDT's 10% interest in the Internet portal company was accounted for at cost. The cost method was used since IDT did not have a controlling voting interest, or an ownership or voting interest so large as to exert significant influence, and the venture was not publicly traded. On April 30, 2000, the Company sold its interests in the two joint ventures for the right to receive 3.75 million shares of Terra common stock. In connection with these sales, the Company recognized a pre-tax gain of \$231.0 million for the year ended July 31, 2000. During the years ended July 31, 2000 and 2001, the Company sold a total of 3.745 million of its Terra shares and recognized therewith a gain of \$24.9 million and a loss of \$129.2 million, respectively, which have been included as a component of "investment and other income (expense)."

**3. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

	July 31	
	2001	2002
	(in thousands)	
Equipment .....	\$264,422	\$ 343,874
Computer software .....	10,192	11,468
Leasehold improvements .....	21,603	27,453
Furniture and fixtures .....	11,120	12,242
Land and building .....	8,937	8,934
	316,274	403,971
Less accumulated depreciation and amortization .....	(92,232)	(153,340)
Property, plant and equipment, net .....	<u>\$224,042</u>	<u>\$ 250,631</u>

Fixed assets under capital leases aggregated \$104.2 million and \$118.3 million at July 31, 2001 and 2002, respectively. The accumulated amortization related to these assets under capital leases was \$35.4 million and \$50.2 million at July 31, 2001 and 2002, respectively. Amortization of fixed assets under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

During the year ended July 31, 2002, the Company recorded an impairment charge associated with its property, plant and equipment of \$3.9 million, primarily resulting from the write-down of certain decommissioned European telecommunications switch equipment and certain discontinued wireless-related equipment.

As a result of the Company's gradual exit from the dial-up Internet access service business, including the sale of a majority of its dial-up Internet access customers, the Company recorded an impairment charge associated with its property, plant and equipment of \$ 6.0 million during the year ended July 31, 2001, primarily relating to equipment previously used to provide dial-up Internet access services.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**4. Goodwill, Licenses and Other Intangibles**

In June 2001, the FASB issued SFAS No. 142. Under the new rules, goodwill and intangible assets deemed to have indefinite lives would no longer be amortized but rather be subject to impairment tests performed at least annually, in accordance with the Statement. Other intangible assets would continue to be amortized over their useful lives.

The Company chose to early adopt the new rules on accounting for goodwill and other intangible assets and began to apply them beginning in the first quarter of Fiscal 2002. As such, the Company performed the required impairment tests of goodwill as of August 1, 2001, and, as a result, the Company recorded an impairment charge of \$147.0 million, net of income taxes of \$3.5 million. The impairment charge was recorded in the first quarter of Fiscal 2002 as a cumulative effect of a change in accounting principle. In determining the impairment charge, the Company obtained an independent valuation of the underlying assets in which discounted cash flows analyses were utilized. As a result, it was determined that the fair value of certain reporting units were less than their carrying values. The implied fair value of goodwill was then determined to be below its carrying value. As a result, the Company recorded an impairment charge to reduce the fair value of goodwill attributable to these reporting units to its carrying value.

During the year ended July 31, 2002, the Company recorded goodwill of \$4.9 million as a result of acquisitions, primarily in the Company's Media business segment. The table below reconciles the change in the carrying amount of goodwill by operating segment for the period from July 31, 2001 to July 31, 2002:

	Wholesale Telecommunications Services	Retail Telecommunications Services	Winstar	Internet Telephony	Media	Corporate	Total
			(in thousands)				
<b>Balance as of July 31, 2001</b>	\$ 44,148	\$ 104,211	\$—	\$—	\$29,934	\$—	\$178,293
Effect of adoption of SFAS No. 142 .....	(44,148)	(103,635)	—	—	(2,725)	—	(150,508)
Acquisitions during 2002 ...	—	446	—	—	4,471	—	4,917
<b>Balance as of July 31, 2002</b>	<u>\$ —</u>	<u>\$ 1,022</u>	<u>\$—</u>	<u>\$—</u>	<u>\$31,680</u>	<u>\$—</u>	<u>\$ 32,702</u>

# IDT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the impact of SFAS No. 142 on income (loss) before extraordinary item and cumulative effect of accounting change, net income (loss) and earnings per share had the standard been in effect for the years ended July 31, 2000 and 2001:

	Year Ended July 31,		
	2000	2001	2002
	(in thousands, except per share data)		
Income (loss) before extraordinary item and cumulative effect of accounting change .....	\$233,826	\$532,359	\$(156,366)
Add back: goodwill amortization .....	14,926	16,313	—
Adjusted income (loss) before extraordinary item and cumulative effect of accounting change .....	\$248,752	\$548,672	\$(156,366)
Earnings per share—basic .....	\$ 3.34	\$ 7.79	\$ (2.08)
Add back: goodwill amortization .....	0.21	0.24	—
Adjusted earnings per share—basic .....	\$ 3.55	\$ 8.03	\$ (2.08)
Earnings per share—diluted .....	\$ 3.11	\$ 7.12	\$ (2.08)
Add back: goodwill amortization .....	0.20	0.22	—
Adjusted earnings per share—diluted .....	\$ 3.31	\$ 7.34	\$ (2.08)
Net income (loss) .....	\$230,850	\$532,359	\$(303,349)
Add back: goodwill amortization .....	14,926	16,313	—
Adjusted net income (loss) .....	\$245,776	\$548,672	\$(303,349)
Earnings per share—basic .....	\$ 3.30	\$ 7.79	\$ (4.04)
Add back: goodwill amortization .....	0.21	0.24	—
Adjusted earnings per share—basic .....	\$ 3.51	\$ 8.03	\$ (4.04)
Earnings per share—diluted .....	\$ 3.07	\$ 7.12	\$ (4.04)
Add back: goodwill amortization .....	0.20	0.22	—
Adjusted earnings per share—diluted .....	\$ 3.27	\$ 7.34	\$ (4.04)

The following disclosure presents certain information on the Company's licenses and other intangible assets. All licenses and intangible assets are being amortized over their estimated useful lives, with no estimated residual values.

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
(in thousands)				
As of July 31, 2002				
Amortized intangible assets:				
Licenses .....	5 years	\$23,994	\$ (3,175)	\$20,819
Core technology, trademark and patents .....	5 years	5,295	(611)	4,684
Total .....		\$29,289	\$ (3,786)	\$25,503
As of July 31, 2001				
Amortized intangible assets:				
Licenses .....	5 years	\$42,523	\$(23,038)	\$19,485
Core technology, trademark and patents .....	5 years	2,817	(2,791)	26
Total .....		\$45,340	\$(25,829)	\$19,511

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Licenses and other intangible assets amortization expense was \$0.9 million, \$4.9 million and \$3.8 million for the years ended July 31, 2000, 2001 and 2002, respectively. The Company estimates that amortization expense of licenses and other intangible assets for each of the next five fiscal years ending July 31 will be approximately \$5.1 million.

**5. Related Party Transactions**

The Company has entered into a number of agreements with Net2Phone. Pursuant to these agreements, during the years ended July 31, 2001 and 2002, the Company billed Net2Phone approximately \$56.8 million and \$31.6 million, respectively, and Net2Phone billed the Company approximately \$19.2 million and \$16.1 million, respectively. In the year ended July 31, 2000, Net2Phone was included in the Company's consolidated financial statements and any amounts billed were eliminated in consolidation. The net balance owed to the Company by Net2Phone was approximately \$19.3 million and \$0.8 million as of July 31, 2001 and 2002, respectively.

The Company currently leases one of its facilities in Hackensack, New Jersey from a corporation which is wholly owned by the Company's Chairman. Aggregate lease payments under such lease was approximately \$24,000 for the years ended July 31, 2000, 2001 and 2002. The Company made payments for food related expenses to a cafeteria owned and operated by the son of the Company's chairman. Such payments were \$0.1 million and \$0.6 million in fiscal years 2001 and 2002, respectively. No payments were made to the cafeteria in fiscal 2000.

The Company has obtained various insurance policies that have been arranged through a company affiliated with individuals related to both the Chairman and the General Counsel of the Company. The aggregate premiums paid by the Company with respect to such policies was approximately \$0.1 million, \$2.2 million and \$3.6 million for the years ended July 31, 2000, 2001 and 2002, respectively. IDT retained the services of a private insurance consulting firm to ensure that these insurance policies were both necessary and reasonable. The commissions that were earned on such premiums are shared with several insurance wholesalers that access excess and surplus lines of insurance held by the Company.

On December 13, 2001, IDT granted to its Chairman options to purchase 1 million shares of IDT Class B common stock, at an exercise price of \$12.06 per share. The options were to vest over a period of 5 years, at a rate of 50,000 options per quarter, commencing on January 1, 2002. On May 14, 2002, IDT's Chairman waived and agreed to the cancellation of any rights under the options, and, as a result, all the options were cancelled retroactive to their December 13, 2001 date of grant.

The Chief Executive Officer and Vice-Chairman of the Company is a partner in a law firm that has served as counsel to the Company since July 1996. Fees paid to this law firm by the Company amounted to \$0.3 million, \$0.0 million and \$0.5 million for fiscal years ended July 31, 2000, 2001 and 2002 respectively. In addition, a Director of the Company is of counsel to a law firm that has served as counsel to the Company since November 1999. Fees paid to this law firm by the Company amounted to \$1.0 million, \$3.1 million and \$6.3 million for fiscal years ended July 31, 2000, 2001 and 2002, respectively.

In addition, the Company had loans outstanding to officers and employees aggregating approximately \$7.7 million and \$10.3 million as of July 31, 2001 and 2002, respectively, which are included within "other assets" in the accompanying consolidated balance sheets.

# IDT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

All of the Company's related party transactions are reviewed by the Audit Committee of the Company's Board of Directors.

### 6. Income Taxes

Significant components of the Company's deferred tax assets and deferred tax liabilities consist of the following:

	July 31	
	2001	2002
	(in thousands)	
Deferred tax assets:		
Unrealized losses on securities .....	\$ 857	\$ —
Bad debt reserve .....	3,980	10,179
Exercise of stock options .....	9,857	9,857
Reserves .....	4,500	4,500
Charitable contributions .....	10,765	10,795
Net operating loss .....	—	170,404
Other .....	8,992	9,899
Deferred tax assets .....	38,951	215,634
Deferred tax liabilities:		
Deferred revenue .....	(196,000)	—
Partnership .....	—	(278,000)
Unrecognized gain on securities .....	(100,313)	(28,709)
Gain on sales of subsidiary stock .....	(105,466)	(120,574)
Depreciation .....	(16,074)	(14,801)
Identifiable intangibles .....	(3,583)	(7,083)
Other .....	(8,429)	(8,440)
Deferred tax liabilities .....	(429,865)	(457,607)
Net deferred tax liabilities .....	<u>\$(390,914)</u>	<u>\$(241,973)</u>

The provision for (benefit from) income taxes consists of the following for the years ended July 31:

	2000	2001	2002
	(in thousands)		
Current:			
Federal .....	\$ —	\$ 6,600	\$ —
State and local and foreign .....	(394)	14,249	(30,683)
	<u>(394)</u>	<u>20,849</u>	<u>(30,683)</u>
Deferred:			
Federal .....	175,191	150,997	(72,788)
State and local and foreign .....	41,712	37,549	(17,349)
	<u>216,903</u>	<u>188,546</u>	<u>(90,137)</u>
	<u>\$216,509</u>	<u>\$209,395</u>	<u>\$(120,820)</u>

# IDT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The income statement classification of the provision for (benefit from) income taxes consists of the following at July 31:

	2000	2001	2002
		(in thousands)	
Provision for (benefit from) income taxes attributable to continuing operations .....	\$218,403	\$209,395	\$(124,345)
Income tax benefit attributable to extraordinary loss .....	(1,894)	—	—
Income tax benefit attributable to cumulative effect of accounting change .....	—	—	3,525
	<u>\$216,509</u>	<u>\$209,395</u>	<u>\$(120,820)</u>

The differences between income taxes expected at the U.S. federal statutory income tax rate and income taxes provided are as follows:

	2000	2001	2002
		(in thousands)	
Federal income tax at statutory rate .....	\$137,513	\$261,618	\$(149,693)
Foreign tax rate differential .....	—	(99,563)	(53,806)
Losses for which no benefit provided .....	32,703	19,141	87,602
Nondeductible expenses .....	17,625	2,162	52,921
State and local and foreign income tax, net of federal benefit .....	28,612	26,037	(57,844)
Other .....	56	—	—
	<u>\$216,509</u>	<u>\$209,395</u>	<u>\$(120,820)</u>

### 7. Stockholders' Equity

#### *Common Stock, Class A Common Stock, and Class B Common Stock*

The rights of holders of common stock, Class A common stock and Class B common stock are identical except for certain voting and conversion rights and restrictions on transferability. The holders of Class A common stock are entitled to three votes per share. The holders of Class B common stock are entitled to one-tenth of a vote per share, and the holders of common stock are entitled to one vote per share. Class A common stock is subject to certain limitations on transferability that do not apply to the common stock and Class B common stock. Each share of Class A common stock may be converted into one share of common stock, at any time, at the option of the holder.

#### *Stock Options*

Prior to March 15, 1996, the Company had an informal stock option program whereby employees were granted options to purchase shares of common stock. Under this informal program, options to purchase 4,317,540 shares of common stock were granted.

The Company adopted a stock option plan as amended (the "Option Plan") for officers, employees and non-employee directors to purchase up to 6,300,000 shares of the Company's common stock. In May 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance 300,000 shares of Class B common stock. In September 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance of an additional 3,000,000 shares of Class B common stock. On May 31, 2002, the Company distributed a stock dividend of one share of Class B common stock for each share of the Company's common stock, Class A common stock and Class B common stock. Accordingly, pursuant to the terms of the Option Plan, up to an additional 9,600,000 shares of Class B common stock were reserved for issuance under the Option Plan. In October 2001, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance an additional 3,000,000 shares of Class B common stock. In September 2002, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance of an additional 3,000,000 shares of Class B common stock. Generally, options become exercisable over vesting periods up to six years and expire ten years from the date of grant.



**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

A summary of stock option activity under the Company's stock option plan and stock option program is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at July 31, 1999 .....	7,175,932	\$ 5.25
Granted .....	8,851,086	9.98
Exercised .....	(2,621,400)	5.54
Canceled .....	(95,000)	8.86
Forfeited .....	(31,500)	10.93
Outstanding at July 31, 2000 .....	13,279,118	8.31
Granted .....	5,112,004	9.15
Exercised .....	(1,041,451)	6.61
Canceled .....	(299,247)	5.71
Forfeited .....	(55,200)	12.63
Outstanding at July 31, 2001 .....	16,995,224	8.70
Granted .....	4,599,982	12.11
Exercised .....	(6,403,708)	8.42
Canceled .....	(1,012,376)	11.96
Forfeited .....	(19,900)	11.99
Outstanding at July 31, 2002 .....	<u>14,159,222</u>	<u>\$ 9.69</u>

The following table summarizes the status of stock options outstanding and exercisable at July 31, 2002:

Range of Exercise Prices	Stock Options Outstanding		
	Number of Options	Weighted-Average Remaining Contractual Life (in years)	Number of Stock Options Exercisable
\$0.10 – \$0.10 .....	290,296	2.0	290,296
\$0.21 – \$0.21 .....	17,632	2.7	17,632
\$0.41 – \$0.41 .....	36,000	2.0	36,000
\$0.83 – \$0.83 .....	30,000	2.7	30,000
\$2.19 – \$2.63 .....	639,500	4.7	639,500
\$3.44 – \$4.13 .....	489,550	4.7	489,550
\$5.63 – \$8.00 .....	5,649,968	8.0	2,016,499
\$8.72 – \$12.13 .....	5,144,618	7.7	2,657,050
\$13.13 – \$18.51 .....	1,861,658	8.4	1,070,358
	<u>14,159,222</u>	<u>7.5</u>	<u>7,246,885</u>

The weighted-average fair value of options granted was \$7.42, \$7.05 and \$9.34 for the years ended July 31, 2000, 2001 and 2002, respectively.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS 123, and has been determined as if the Company had accounted for employees' stock options under the fair value method provided by that statement. The fair value of the stock options was estimated at the date of

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

grant using the Black-Scholes option pricing model with the following assumptions for vested and non-vested options:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Assumptions</b>			
Average risk-free interest rate .....	6.49%	4.77%	4.22%
Dividend yield .....	—	—	—
Volatility factor of the expected market price of the Company's common stock .....	81%	90%	73%
Average life .....	5 years	5 years	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employees' stock options.

For purposes of pro forma disclosures, the estimated fair value of the options under SFAS No. 123 is amortized to expense over the options' vesting period. For the years ended July 31, 2000, 2001 and 2002, pro forma net income (loss) and pro forma net income (loss) per share under SFAS No. 123 amounted to the following:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	(in thousands, except per share data)		
Net income (loss), as reported .....	\$230,850	\$532,359	\$(303,349)
Pro forma net income (loss) .....	\$214,286	\$514,716	\$(328,611)
Net income (loss) per share, as reported:			
Basic .....	\$ 3.30	\$ 7.79	\$ (4.04)
Diluted .....	\$ 3.07	\$ 7.12	\$ (4.04)
Pro forma net income (loss) per share:			
Basic .....	\$ 3.06	\$ 7.54	\$ (4.38)
Diluted .....	\$ 2.84	\$ 6.88	\$ (4.38)

The Company has modified stock options granted for certain employees of the Company to accelerate or extend their terms. Accordingly, the Company recorded additional compensation expense of approximately \$1.0 million, \$3.1 million and \$1.9 million for the years ended July 31, 2000, 2001 and 2002, respectively. During Fiscal 2002, the Company granted options to certain employees to purchase 14,546 shares of common stock in its subsidiary, IDT Telecom, at an average exercise price of \$366.67 per share. No such options were exercised during the year.

*Net2Phone Stock Options*

During the quarter ended July 31, 2000, stock options issued to certain officers and employees of Net2Phone were accelerated in accordance with the original stock option awards and as a result Net2Phone recorded \$12.5 million in compensation charges as a result of the acceleration. During the quarter ended July 31, 2000, stock options issued to certain officers and employees of IDT were modified and as a result, Net2Phone recorded \$18.3 million in compensation charges.

## IDT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### *Stock Buyback Program*

Our Board of Directors has authorized the repurchase of up to 45 million shares (adjusted for the May 2001 stock dividend) of our common stock and Class B common stock. During Fiscal 2002, we repurchased approximately 1.4 million shares of our common stock, for an aggregate purchase price of \$15.6 million. Combined with the 6.8 million (adjusted) shares and 7.4 million (adjusted) shares repurchased during Fiscal 2001 and Fiscal 2000, respectively, we have repurchased a total of 15.6 million shares under the share repurchase program through the end of Fiscal 2002, of which 6.2 million shares were retired as of July 31, 2002.

#### *Liberty Media Transaction*

On March 27, 2000, Liberty Media agreed to purchase approximately 9.9% of the equity of IDT, equal to approximately 3.775 million shares of IDT's common stock and exchangeable for shares of Class B common stock (before adjusting for the May 2001 stock dividend). On June 6, 2000, Liberty Media completed the purchase of 3.729 million shares of IDT's common stock (before adjusting for the May 2001 stock dividend) at \$34.50 per share (before adjusting for the May 2001 stock dividend), resulting in aggregate cash consideration of \$128.6 million. Liberty Media also has the right to nominate a director for election to the IDT Board of Directors.

On October 11, 2001 IDT issued to Liberty Media 3.810 million shares of IDT Class B common stock in exchange for the 3.729 million shares of IDT common stock held by Liberty Media. The exchange rate was based upon the relative average market prices for the IDT Class B common stock and the IDT common stock during a specified 30 trading day period.

#### *Liberty Media Investment in IDT Telecom, Inc.*

On January 30, 2002, IDT Telecom sold 7,500 newly issued shares of its common stock to Liberty Media at a price of \$4,000 per share, for total aggregate proceeds of \$30.0 million. As a result of this investment, Liberty Media became the owner of approximately 4.8% of the common equity of IDT Telecom (0.5% of the voting power). The Company owns the remaining common equity of IDT Telecom.

#### *AT&T Transaction*

In March 2000, the Company was granted the option to sell to AT&T 4.1 million shares of its Class B common stock for approximately \$74.8 million. In March 2001, the Company exercised this option.

#### *Hicks, Muse, Tate & Furst Transaction*

In June 2001, the Company issued stock options to Hicks, Muse, Tate & Furst Incorporated ("HMTF") to purchase up to 2.2 million shares of the Company's Class B common stock at exercise prices ranging from \$11.25 to \$15.00 per share, as defined. The stock options are exercisable on the first anniversary of the agreement, and expire on the fifth anniversary date. In consideration for the stock options issued to HMTF, the Company received \$2.0 million in cash.

#### *IDT Charitable Foundation*

In May 2001, the Company established the IDT Charitable Foundation (the "Foundation") with the purpose of obtaining money or property to be contributed from time to time to eligible charitable organizations. The Foundation also administers a matching gifts program available to IDT's directors, officers, employees and retirees.

In July 2001, the Company funded the Foundation with 2.2 million shares of Class B common stock worth approximately \$26.4 million at that time.

## IDT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 8. Commitments and Contingencies

##### *Legal Proceedings*

On January 29, 2001, the Company filed a Complaint with the United States District Court for the District of New Jersey, against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc. The complaint asserts claims against the defendants for, among other things, breaches of various contracts, breach of fiduciary duty, securities violations, fraudulent misrepresentation, negligent misrepresentation, fraudulent concealment and tortious interference with prospective economic advantage. The defendants have been served with the Complaint. The Company has filed an Amended complaint and the defendants have filed an answer to the amended complaint. Terra Networks, S.A. has filed a counterclaim for breach of contract alleging that the Company was required to pay to Terra Networks, S.A. \$3.0 million, and failed to do so. The defendants have filed a motion to dismiss the complaint. On September 14, 2001, the Court issued an Order: (a) permitting the Company to take discovery relevant to the subject of whether Telefonica S.A. is subject to personal jurisdiction, (b) denying Telefonica S.A.'s motion to dismiss for lack of personal jurisdiction without prejudice to Telefonica S.A.'s right to renew the motion upon the completion of jurisdictional discovery, and (c) carrying on the calendar defendants' motion to dismiss on non-jurisdictional grounds pending the completion of jurisdictional discovery, which is ongoing. Each party served the other party with certain requests for discovery relevant to the subject of whether Telefonica S.A. is subject to personal jurisdiction. The motions were denied almost in their entirety. The case continues in the early stages of discovery. No trial date has yet been set in this matter.

On May 25, 2001, we filed a statement of claim with the American Arbitration Association naming Telefonica Internacional, S.A. ("Telefonica") as the Respondent. The statement of claim asserts that the Company and Telefonica entered into a Memorandum of Understanding ("MOU") that involved, among other things, the construction and operation of a submarine cable network around South America ("SAM-I"). The Company is claiming, among other things, that Telefonica breached the MOU by: (1) failing to negotiate SAM-I agreements; (2) refusing to comply with the equity provisions of the MOU; (3) refusing to sell capacity and back-haul capacity pursuant to the MOU; and (4) failing to follow through on the joint venture. Telefonica has responded to IDT's Statement of Claim and has filed a Statement of Counterclaim which alleges, among other things: (1) Fraud in the Inducement; (2) Tortious Interference with Prospective Business Relations; (3) Breach of the Obligations of Good Faith and Fair Dealing; and (4) Declaratory and Injunctive Relief. Discovery is in its final stages and both parties have submitted expert reports. The arbitration is ongoing and is expected to continue into 2003.

In September 2001, Alfred West filed a complaint against the Company and its wholly-owned subsidiary, IDT Telecom, Inc. in the Federal District Court in Newark, New Jersey seeking monetary damages of \$25 million for alleged breach of contract, breach of implied covenant of good faith and fair dealing, fraud, negligent misrepresentation, promissory estoppel, quantum meruit, tortious interference and unfair competition. The Company filed counterclaims for fraud, negligent misrepresentation, breach of fiduciary duty, tortious interference and breach of contract. Several depositions have been completed, and discovery should be completed by the end of October 2002.

Winstar acquired certain domestic telecommunications assets formerly owned by Old Winstar, which was approved by the Bankruptcy Court on December 19, 2001 (the "Sale Order"). Although many of the purchased assets were transferred to Winstar at the time of the sale, the transfer of certain of Old Winstar's regulated telecommunications assets, including its customer base, was subject to a number of federal and state regulatory approvals and on Winstar's obtaining the necessary telecommunications facilities and services necessary to serve the customers it agreed to purchase from Old Winstar. Subsequently, Winstar has entered into interconnection agreements with the relevant RBOCs and has sought to use services and facilities obtained pursuant to those

## IDT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

agreements and pursuant to RBOC tariffs to complete its network and therefore to be able to transition the customers from service by Old Winstar to Winstar.

Although all of the regulatory approvals necessary for this transition have now been issued, the RBOCs have asserted that Winstar is nevertheless not entitled to obtain uninterrupted services under their interconnection agreements and tariffs unless the RBOCs receive payment of approximately \$40 million, in the aggregate, allegedly owed by Old Winstar for access to RBOC facilities and circuits. Based on the claim that Winstar must pay this "cure" amount as a condition of receiving uninterrupted service, the RBOCs have refused in certain instances to provide facilities and service to Winstar that it needs in order to serve its customers directly. As a result, Winstar is operating the business of Old Winstar pursuant to a management agreement approved by the bankruptcy court, and is providing services to the customers on behalf of Old Winstar.

Winstar contends that, even were it to assume the Old Winstar contracts with the RBOCs, the amounts set forth in the RBOC's proofs of claim greatly exceed any reasonable "cure" for facilities and services that Winstar seeks to obtain from the RBOCs, since the claims include significant amounts that Old Winstar owed for services and facilities that IDT Winstar has not requested, and does not need to be able to provide services to the customers following the transition. Winstar also disputes the RBOC's claims that they are not obligated to provide services and facilities to Winstar without an assumption or assignment of the Old Winstar contracts and a payment of "cure" amounts. In response to the RBOC's refusal to provide service, on April 17, 2000 Winstar filed an Emergency Petition for a Declaratory Ruling at the FCC (Inc. Docket No. 02-80) asking that the FCC declare that the refusal of the RBOCs to provide the requested services and facilities pursuant to their interconnection agreements and tariffs, and their refusal to transition such services in a manner that does not interrupt services to the customers is unreasonable and therefore unlawful under federal law. In response, one RBOC (Verizon) filed a counter-petition asking that the FCC declare that the federal telecommunications laws do not require it to provide facilities and services to Winstar without "cure" of Old Winstar's debts. A number of parties filed comments in the FCC proceeding on both sides of the issue and the proceeding is still pending at the FCC. Winstar believes that the RBOCs have acted unreasonably and unlawfully in denying its requests for services and facilities and will continue absent a settlement with the RBOCs to advocate its position vigorously.

In addition, faced with likely termination of service to Old Winstar customers in violation of the Telecommunications Act and number our FCC regulations, we sought injunctive relief (in addition to other remedies) in the U.S. District Court for the District of New Jersey against Verizon, Qwest Corp. and Qwest Communications Corp. ("QCC") to prevent them from discontinuing underlying services which would prevent us from providing service to our customers. Certain interim relief was secured, and Verizon, Qwest and QCC subsequently agreed not to terminate service without appropriate notice to us. The District of New Jersey action is ongoing.

The RBOCs further contend that the provision in the Sale Order requiring them to continue serving Old Winstar and its subsidiaries expired on or about April 18, 2002. Winstar promptly moved to enforce that provision of the Sale Order, but the bankruptcy court denied its motion. Winstar has appealed the denial of that motion to the U.S. District Court for the District of Delaware. In addition, Winstar asked the District Court for interim relief during the pendency of its appeal to stay the RBOCs and other service providers from cutting off service until the appeal is decided. The District Court has not yet ruled on that request, but has temporarily ordered that service providers, including the RBOCs, may not terminate service or otherwise affect Winstar's business without permission of the Court.

During preliminary status hearings before the District Court on May 24 and June 4, 2002, the RBOCs and Winstar advised the Court of their willingness to enter into settlement discussions and/or non-binding mediation

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

in an attempt to resolve their disputes. Those settlement discussions and mediations are ongoing, and the District Court appeal is therefore still pending. It is too soon to predict whether settlements will be reached with any or all of the RBOCs or, if so, to quantify the monetary effect of such settlements, if any, on Winstar. To the extent that a settlement agreement is not reached with any or all of the RBOCs, we expect that the appellate proceedings will resume. One possible outcome of an adverse ruling by the District Court on either the interim relief requested by Winstar or on the merits of the case could be to permit the RBOCs to terminate services that are being provided to our customers and therefore to prevent the uninterrupted transition of those customers to Winstar service. A status conference is scheduled for November 8, 2002, for the parties to report on the progress of their efforts to mediate the disputes.

Winstar believes that the RBOCs have acted unreasonably and unlawfully in denying its request for services and facilities and will continue absent a settlement to advocate its positions vigorously. However, adverse results in one or more of the above-described RBOC litigations could have a material adverse effect on us, including payment of the "core" amount described above, or the inability of Winstar to access the RBOCs services and facilities, in which its business is substantially dependent.

On or about July 25, 2002, PT-1 Communications, Inc. ("PT-1") filed a summons and complaint against the Company and its subsidiaries, IDT Netherlands, B.V., IDT Telecom, Inc. and IDT Domestic Telecom, Inc. (collectively "the Company") in the United States Bankruptcy Court for the Eastern District of New York. PT-1 seeks (a) to recover damages for certain fraudulent transfers of property of the Debtor's bankruptcy estate, (b) to recover damages for unjust enrichment, and (c) to recover damages from breaches under the agreement between the parties for the sale of the Debtor's debit card business to the Company, including the Company's alleged failure to remit payment for use of certain telecommunication and platform services on or through PT-1 switches. In total, PT-1 is seeking \$24 million in damages as well as certain unstated amounts. The Company served its answer on September 18, 2002. Initial discovery will commence shortly.

On or about September 16, 2002, a complaint was filed by Mark B. Aronson in the Court of Common Pleas of Allegheny County, Pennsylvania seeking certification of a class consisting of consumers who were charged a fee when the Company switched underlying carriers from Global Crossing to AT&T. At this point no specific damages have been specified in the complaint. Thus, the Company cannot yet quantify its exposure.

On or about September 19, 2002, a complaint was filed by Ramon Ruiz against the Company and Union Telecard Alliance, LLC in the Supreme Court of the State of New York seeking certification of a class consisting of consumers who allegedly purchased and used the Company's pre-paid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The complaint seeks damages in excess of one hundred million dollars.

On or about October 11, 2002, a complaint was filed by Paul Zedeck against us and Union Telecard in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida, seeking certification of a class consisting of consumers who allegedly purchased and used our prepaid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The damages sought have not yet been quantified. Because we only recently received the complaint, we are still evaluating the potential impact and our approach to contesting the claims or attempts to certify the classes.

On or about October 18, 2002, a complaint was filed by Morris Amsel against us and IDT Telecom in the Supreme Court of the State of New York seeking certification of a class consisting of consumers who allegedly purchased our calling cards. Plaintiff's complaint relates to payphone charges and international rates. The complaint seeks damages of not less than \$100 million. Because we only recently received the complaint, we are still evaluating the potential impact and our approach to contesting the claims or attempts to certify the classes.

# IDT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On or about October 24, 2002, Winstar filed suit against Superior Logistics Management Services, Inc. ("Superior") in the United States District Court for the Eastern District of Virginia. The complaint alleges counts for breach of contract (Superior breached a settlement agreement with Winstar), conversion (for retaining Winstar's property), and detinue (for return of the property). Winstar is seeking approximately \$50 million in damages, plus punitive damages, costs, and attorney's fees.

The Company is subject to other legal proceedings and claims, which have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of the Company's management, such proceedings, as well as the aforementioned actions, will not have a material adverse effect on results of operations, cash flows or the financial condition of the Company.

### *Lease Obligations*

The future minimum payments for capital and operating leases as of July 31, 2002 are approximately as follows:

	Operating Leases	Capital Leases
	(in thousands)	
Year ending July 31:		
2003 .....	\$ 69,420	\$ 27,110
2004 .....	52,174	23,482
2005 .....	43,961	13,747
2006 .....	39,340	10,808
2007 .....	37,003	1,317
Thereafter .....	150,991	—
Total payments .....	<u>\$392,889</u>	76,464
Less amount representing interest .....		(8,106)
Less current portion .....		(22,960)
Capital lease obligations—long-term portion .....		<u>\$ 45,398</u>

Rental expense under operating leases was approximately \$6.9 million, \$4.9 million and \$27.3 million for the years ended July 31, 2000, 2001 and 2002, respectively. The significant increase in rental expense in Fiscal 2002 is due primarily to the significantly higher number of operating leases associated with our Winstar segment, which was acquired in December 2001.

### *Commitments*

The Company has entered into purchase commitments of approximately \$25 million as of July 31, 2002, primarily related to connectivity agreements. In addition, in April 2002, the Company entered into a four-year agreement to grant a telecommunications provider an exclusive right to service the Company's consumer long distance business traffic, in which the Company agreed to purchase a minimum usage over the term of the agreement. In the event that the Company terminates the agreement before the expiration date, the Company is subject to an early termination penalty of \$15 million if cancelled in the first year, \$10 million if canceled in the second year, \$5 million if cancelled in the third year and \$2 million if cancelled in the fourth year.

The Company guarantees payments of certain of its vendors through August 2009. Such guarantees amounted to \$3.4 million as of July 31, 2002. In addition, the Company also provides certain such guarantees to its vendors in the form of letters of credit, through June 2008. Such guarantees amounted to \$8.6 million as of July 31, 2002.

# **IDT CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

### **9. Defined Contribution Plan**

The Company maintains a 401(k) Plan (the "Plan") available to all employees meeting certain eligibility criteria. The Plan permits participants to contribute up to 20% of their salary, not to exceed the limits established by the Internal Revenue Code. The Plan provides for a matching contribution up to a maximum of 6% of covered compensation, which vests over five years. All contributions made by participants vest immediately into the participant's account. For the years ended July 31, 2000, 2001 and 2002, Company contributions to the Plan amounted to approximately \$0.3 million, \$0.8 million and \$0.9 million, respectively. The Company's common stock and Class B common stock are not investment options for Plan participants.

### **10. Business Segment Information**

The Company has identified five reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, Winstar, Internet Telephony and Media. The operating results of these business segments are distinguishable and are regularly reviewed by the chief operating decision maker.

The Wholesale Telecommunications Services business segment is comprised of wholesale carrier services provided to other long distance carriers. The Retail Telecommunications Services business segment includes domestic and international prepaid and rechargeable calling cards and consumer long distance services to individuals and businesses. The Winstar business segment operates as a competitive local exchange carrier ("CLEC") using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions. The Internet Telephony business segment reflects the results of the Company's formerly majority-owned subsidiary, Net2Phone. The Media business segment operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

The Company evaluates the performance of its business segments based primarily on operating income (loss) after depreciation, amortization and impairment charges, but prior to interest income (expense), other income (expense), income taxes, extraordinary items and cumulative effect of accounting changes. All corporate overhead is allocated to the business segments based on time and usage studies, except for certain specific corporate costs, such as treasury management and investment-related costs, which are not allocated to the business segments. Operating results and other financial data presented for the principal business segments of the Company for the years ended July 31, 2000, 2001 and 2002 are as follows (in thousands):

	Wholesale Telecommunications Services	Retail Telecommunications Services	Winstar(1)	Internet Telephony(2)	Media(3)	Corporate	Total
<b>Year ended July 31,</b>							
<b>2000</b>							
Revenues .....	\$520,518	\$ 502,512	\$ —	\$ 56,075	\$ 14,807	\$ —	\$1,093,912
Segment loss .....	(8,409)	(11,477)	—	(125,865)	(39,134)	(31,726)	(216,611)
Depreciation and amortization .....	17,252	16,656	—	6,804	5,228	2,624	48,564
Total assets .....	416,045	345,682	—	401,286	11,945	44,097	1,219,055
<b>Year ended July 31,</b>							
<b>2001</b>							
Revenues .....	388,120	816,384	—	—	26,446	—	1,230,950
Segment loss .....	(69,454)	(34,118)	—	—	(265,600)	(63,538)	(432,710)
Depreciation and amortization .....	23,472	26,719	—	—	7,519	2,641	60,351
Total assets .....	516,395	1,028,069	—	—	269,062	68,063	1,881,589
<b>Year ended July 31,</b>							
<b>2002</b>							
Revenues .....	308,987	1,121,674	79,604	—	21,349	—	1,531,614
Segment income (loss) .....	(30,572)	61,396	(96,644)	—	(132,006)	(26,466)	(224,292)
Depreciation and amortization .....	20,696	33,988	6,691	—	2,253	2,388	66,016
Total assets .....	\$220,060	\$1,078,195	\$159,726	\$ —	\$ 91,776	\$ 58,163	\$1,607,920



**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Revenue from customers located outside of the United States represented approximately 17%, 16% and 18% of total revenues for the years ended July 31, 2000, 2001 and 2002, respectively, with no single foreign geographic area representing more than 10% of total revenues for the year ended July 31, 2000, and Western Europe representing 15% and 17% of total revenues for the years ended July 31, 2001 and 2002, respectively. Revenues are attributed to foreign geographic areas based on the location where the customer is invoiced. Gross and net long-lived assets mainly held in Western Europe totaled approximately \$28.3 million and \$18.7 million, and \$31.9 million and \$28.2 million as of July 31, 2001 and 2002, respectively.

- (1) Since acquisition of Winstar in December 2001.
- (2) Included in loss from operations for the Internet Telephony business segment for the year ended July 31, 2000 was approximately \$41.0 million of non-cash compensation as a result of stock option grants, modifications and accelerations made by Net2Phone. In addition, contributing to the loss from operations was the significant level of sales and marketing expenses, as well as general and administrative expenses, as Net2Phone expanded its distribution relationships, corporate infrastructure and human resources.
- (3) Included in loss from operations for our Media business segment for the years ended July 31, 2001 and 2002 were \$193.4 million and \$110.4 million, respectively, of impairment charges related to the write-down of the undersea fiber asset obtained as part of the TyCom Ltd. ("TyCom") settlement.

*Reconciliation To Consolidated Financial Information*

A reconciliation of the results for the operating segments to the applicable line items in the consolidated financial statements is as follows (in thousands):

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Segment loss—reportable segments .....	\$(216,611)	\$ (432,710)	\$(224,292)
Interest income, net .....	7,231	52,768	21,757
Other income (expense):			
Equity in loss of affiliates .....	(6,289)	(75,066)	(43,989)
Gain on sales of subsidiary stock .....	350,344	1,037,726	—
Investment and other income (expense), net .....	258,218	164,762	(12,117)
Income (loss) before minority interests, income taxes, extraordinary item and cumulative effect of accounting change .....	392,893	747,480	(258,641)
Minority interests .....	(59,336)	5,726	22,070
Provision for (benefit from) income taxes .....	218,403	209,395	(124,345)
Income (loss) before extraordinary item and cumulative effect of accounting change .....	233,826	532,359	(156,366)
Extraordinary loss on retirement of debt, net of income taxes of \$1,894 ..	(2,976)	—	—
Cumulative effect of accounting change, net of income taxes of \$3,525 ...	—	—	(146,983)
Consolidated net income (loss)—reported .....	<u>\$ 230,850</u>	<u>\$ 532,359</u>	<u>\$(303,349)</u>

**11. Additional Financial Information**

Trade accounts payable includes approximately \$112.9 million and \$84.1 million due to telecommunication carriers at July 31, 2001 and 2002, respectively.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**12. Acquisitions**

*CTM Brochure Display, Inc.*

On June 30, 2000, the Company acquired a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company, for an aggregate purchase price of approximately \$23.8 million. The purchase price consisted primarily of \$5.1 million in cash, \$16.9 million in notes payable to the former owners and the liquidation of \$1.4 million of CTM's bank debt. In connection with this transaction, the Company recorded goodwill of \$23.0 million and tax liabilities of \$3.0 million. The acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of the acquired business have been included in the consolidated financial statements from the date of acquisition. During the year ended July 31, 2001, the Company repaid the entire principal balance on the notes payable, together with accrued interest.

*Aplio S.A.*

On July 7, 2000, Net2Phone acquired all of the outstanding capital stock of Aplio, S.A. ("Aplio"), a company located in France with technology that enables VoIP devices. Consideration consisted of \$2.9 million in cash at closing, 0.6 million shares of Net2Phone's common stock which were valued at \$35.50 per share, issuance of promissory notes aggregating \$6.5 million, \$1.1 million in acquisition related costs and \$4.8 million in cash that was paid within eighteen months of the closing of the transaction.

The aggregate purchase price of \$36.0 million plus the fair value of net liabilities assumed of \$2.7 million was allocated as follows: approximately \$17.5 million to goodwill, \$20.7 million to core technology and patents and \$0.5 million to assembled workforce. The acquisition was accounted for under the purchase method of accounting by Net2Phone, and accordingly, the net assets and results of operations of the acquired business was included in the consolidated financial statements through July 2000.

*PT-1 Communications*

In February 2001, the Company purchased certain prepaid calling card business assets of PT-1 Communications, Inc. ("PT-1"), a wholly-owned subsidiary of STAR Telecommunications, Inc., with a payment of cash and assumption of certain liabilities, including the obligation to honor the outstanding phone cards of PT-1. The cash payment and assumption of net liabilities incurred were approximately \$26.3 million with substantially all of the purchase price recorded as goodwill.

*Equity Interests in Teligent, Inc. and ICG Communications, Inc.*

In April 2001, through its IDT Investments, Inc. subsidiary ("IDT Investments"), the Company acquired from Liberty Media (i) a company whose sole asset was 21.4 million shares of Teligent, Inc. ("Teligent") Class A common stock, as well as (ii) an interest in ICG Communications, Inc. ("ICG"), represented by 50,000 shares of ICG's 8% Series A-1 convertible preferred stock and warrants to purchase approximately 6.7 million shares of ICG's common stock. In exchange, IDT Investments issued Liberty Media a total of 10,000 shares of its Class B common stock and 40,000 shares of its Series A convertible preferred stock. Upon completing the transaction, IDT effectively owned approximately 32% of the equity of Teligent, and approximately 29% of the equity of ICG. The total consideration for Teligent and ICG's April 2001 transaction was approximately \$10.3 and \$3.4 million, respectively.

In May 2001, through its IDT Investments subsidiary, the Company entered into an agreement with various affiliates of HMTF to increase IDT's strategic investments in Teligent and ICG. Under the terms of the

## IDT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

agreement, the HMTF affiliates received 18,195 shares of IDT Investments' Series B convertible preferred stock in exchange for the HMTF affiliates' stakes in Teligent and ICG. The HMTF affiliates owned 219,998 shares of Teligent's Series A 7¾% convertible preferred stock, 23,000 shares of ICG's 8% Series A-2 convertible preferred stock and warrants to purchase approximately 3.1 million shares of ICG's common stock. Upon completing the transaction, IDT effectively owned approximately 37% of the equity of Teligent, and approximately 42% of the equity of ICG. The total consideration for Teligent and ICG's May 2001 transaction was approximately \$2.0 and \$1.6 million, respectively.

The pro-rata share of the losses of Teligent and ICG recorded by IDT subsequent to these acquisitions have fully eliminated the carrying value of the Company's investment in these companies.

In May 2001, Teligent filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code. ICG had previously filed for bankruptcy protection in November 2000.

#### *Winstar*

On December 19, 2001, the Company, through a subsidiary, acquired the core domestic telecommunications assets of Winstar Communications, Inc. and certain of its subsidiaries that are debtors and debtors in possession in bankruptcy proceedings pending before the United States Bankruptcy Court for the District of Delaware. The acquiring subsidiary was subsequently renamed Winstar Holdings, LLC. Winstar operates as a CLEC using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions.

The purchase price for the Winstar assets was comprised of a \$30.0 million cash payment, \$12.5 million in newly issued shares of IDT Class B common stock and 5% of the common equity interests in the acquiring subsidiary (the remaining 95% of the common equity interests as well as all of the preferred equity interests in the acquiring subsidiary were owned by IDT). The Company also agreed to invest \$60.0 million into Winstar to be used as working capital. The acquisition has been accounted for under the purchase method of accounting. The results of operations of Winstar have been included in the Company's consolidated statements of operations since the date of acquisition. The preliminary allocation of the purchase price, pending final determination of certain acquired balances, is as follows (in thousands):

Trade accounts receivable and other current assets .....	\$ 51,301
Property, plant, equipment and intangible assets .....	37,923
Trade accounts payable, accrued expenses and other current liabilities .....	(44,487)
Minority interest .....	(2,237)
Value of assets acquired .....	<u>\$ 42,500</u>

The fair value of the Winstar assets acquired and liabilities assumed would have exceeded IDT's acquisition cost. Therefore, in accordance with SFAS No. 141, Business Combinations, the excess value over the acquisition cost has been allocated as a pro rata reduction of the amounts that otherwise would have been assigned to the acquired assets, except with respect to the following:

- *Trade accounts receivable*—present values of amounts to be received, less allowances for uncollectibility and collection costs.
- *Other current assets* (principally assets to be sold)—fair value less cost to sell.
- *Trade accounts payable, accrued expenses and other current liabilities* (principally relating to contractual agreements assumed)—present values of amounts to be paid.

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

On April 16, 2002, IDT, through a subsidiary, purchased the 5% of common equity interests in Winstar that it did not own. Consideration consisted of 0.8 million shares of IDT Class B common stock, which were valued at \$13.3 million.

The following pro forma financial information presents the combined results of operations of IDT and Winstar, as if the Winstar acquisition had occurred as of the beginning of the periods presented, after giving effect to certain adjustments, including depreciation expense, income taxes and the issuance of IDT Class B common stock as part of the purchase price. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had IDT and Winstar been a single entity during such periods.

	Year Ended July 31,		
	2000	2001	2002
	(in thousands, except per share data)		
Revenues .....	\$1,325,821	\$ 1,451,912	\$1,604,314
Income (loss) before cumulative effect of accounting change .....	\$ 108,472	\$(1,421,850)	\$ (205,083)
Net income (loss) .....	\$ 108,472	\$(1,421,850)	\$ (352,066)
Earnings per share:			
Income (loss) before cumulative effect of accounting change .....			
Basic .....	\$ 1.51	\$ (20.29)	\$ (2.70)
Diluted .....	\$ 1.41	\$ (18.57)	\$ (2.70)
Net income (loss)			
Basic .....	\$ 1.51	\$ (20.29)	\$ (4.63)
Diluted .....	\$ 1.41	\$ (18.57)	\$ (4.63)

**13. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended July 31		
	2000	2001	2002
	(in thousands, except per share data)		
Numerator:			
Net income (loss) .....	\$230,850	\$532,359	\$(303,349)
Denominator:			
Weighted-average number of shares used in calculation of earnings per share—Basic .....	69,933	68,301	75,108
Effect of stock options .....	5,306	6,485	—
Weighted-average number of shares used in calculation of earnings per share—Diluted .....	75,239	74,786	75,108
Earnings per share—Basic .....	\$ 3.30	\$ 7.79	\$ (4.04)
Earnings per share—Diluted .....	\$ 3.07	\$ 7.12	\$ (4.04)

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following securities have been excluded from the dilutive per share computation as they are antidilutive:

	Year ended July 31		
	2000	2001	2002
		(in thousands)	
Stock options .....	449	1,163	5,291
Contingently issuable shares .....	—	—	369
Total .....	<u>449</u>	<u>1,163</u>	<u>5,660</u>

**14. Net2Phone Subsidiary Stock Sales**

During the years ended July 31, 2000 and 2001, the Company recognized approximately \$350.3 and \$1,037.7 million, respectively, in gains on sales of subsidiary stock related to Net2Phone stock sales, as follows:

On August 3, 1999, Net2Phone completed an initial public offering of 6.2 million shares of its common stock at an initial public offering price of \$15.00 per share, resulting in net proceeds of \$85.3 million. Upon completion of the initial public offering, 3.1 million shares of Net2Phone Series A preferred stock were converted into 9.4 million shares of Net2Phone Class A common stock. As a result of the initial public offering and concurrent conversion of Series A preferred stock to Class A common stock, the Company's ownership percentage in Net2Phone decreased from 90.0% to 56.2%. In connection with such offering, the Company recorded a gain of \$65.5 million.

In December 1999, Net2Phone completed a secondary offering of 3.4 million shares of common stock at a price of \$55.00 per share. In connection with this offering, IDT also sold 2.2 million shares of Net2Phone common stock at \$55.00 per share. Total proceeds to the Company, after deducting underwriting discounts, commissions and offering expenses were \$292.8 million. The Company's ownership interest in Net2Phone before and after these transactions decreased from 56.2% to 45.0%. The Company recorded gains on sales of stock of \$182.6 million in connection with these offerings.

In March 2000, the Company acquired 0.8 million shares of Yahoo! Inc. in exchange for 2.8 million shares of Net2Phone common stock at a then equivalent market value of approximately \$150.0 million. In connection with this transaction, the Company recorded a gain on sale of subsidiary stock of \$102.2 million.

In August 2001, IDT sold 14.9 million shares of Net2Phone common stock at \$75.00 per share. Net proceeds to the Company as a result of this sale were \$1,042.1 million. The Company's ownership interest in Net2Phone before and after this transaction decreased from 45.0% to 16%. The Company recorded a total gain of \$1,037.7 million in conjunction with this transaction.

**15. TyCom Ltd. Settlement**

On October 10, 2000, IDT reached a full and final settlement with TyCom of all pending claims brought against one another and their respective affiliates. The settlement agreement is subject to a confidentiality agreement among the parties and only the following disclosure by IDT is permitted under the terms of that agreement.

Under the terms of the settlement, TyCom granted to IDT Europe B.V.B.A. ("IDT Europe"), free of charge, certain exclusive rights to use capacity on the transatlantic and transpacific segments of TyCom's global

**IDT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

undersea fiber optic network (the "TyCom Global Network"), which TyCom is deploying. The settlement agreement provides for IDT Europe to obtain exclusive indefeasible rights to use (IRU) two 10 Gb/s wavelengths on the transatlantic segment (which we have been informed has been deployed) and two 10 Gb/s wavelengths on the transpacific segment (which we believe is still under development) for fifteen years from the applicable Handover Dates.

Operation, administration and maintenance for the wavelengths used by the Company will be provided by TyCom for a fifteen year period after the relevant Handover Date, free of charge. TyCom has also granted the Company certain rights to resell any unused capacity on the wavelengths through TyCom as its sole and exclusive agent. In addition, the Company will also have the option, exercisable at least annually, to convert the available capacity on its wavelengths to available equivalent capacity on another portion of the TyCom Global Network. In recognition of the settlement, a gain of \$313.5 million was included as a component of "investment and other income." The Company subsequently re-evaluated the recoverability of the carrying value of its IRU in accordance with SFAS No. 121 and, as a result, the Company has recorded an impairment loss of \$193.4 million and \$110.4 million for the years ended July 31, 2001 and 2002, respectively, to write down the asset to its fair value.

**16. Comprehensive Income (Loss)**

The accumulated balances for each classification of comprehensive income (loss) consists of the following (in thousands):

	Unrealized gain (loss) in available-for- sale securities	Foreign currency translation	Accumulated other comprehensive loss
Beginning balance at July 31, 1999 .....	\$ —	\$ —	\$ —
Change during period .....	(94,044)	1,391	(92,653)
Balance at July 31, 2000 .....	(94,044)	1,391	(92,653)
Change during the period .....	89,148	930	90,078
Balance at July 31, 2001 .....	(4,896)	2,321	(2,575)
Change during the period .....	(1,064)	964	(100)
Balance at July 31, 2002 .....	<u>\$ (5,960)</u>	<u>\$3,285</u>	<u>\$ (2,675)</u>

**17. Price Guarantee of Class B Common Stock**

In March 2001, the Company exercised an option to sell to AT&T approximately 2.0 million shares of its Class B common stock for approximately \$74.8 million. In conjunction with the formation of the consortium, IDT guaranteed to AT&T the value of approximately 1.4 million shares of IDT Class B common stock still being retained by AT&T. If the value of IDT Class B common stock is less than \$27.5 million on October 19, 2002, and AT&T or an affiliate retains all the shares through such date, then IDT will be obligated to pay AT&T the difference with cash, additional shares of IDT Class B common stock or a combination of both, at the option of IDT. In connection with this obligation, the Company recorded in "investment and other income (expense)" a

# **IDT CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

charge of \$5.3 million during the year ended July 31, 2002. The Company was subject to additional charges of \$1.0 million through October 19, 2002 based on changes in the market value of IDT Class B common stock. As a result, the Company's total liability is \$6.3 million as of October 19, 2002.

### **18. Extraordinary Loss**

On May 10, 1999, the Company obtained a Senior Secured Credit Facility from a consortium of financial institutions. During the second quarter ended January 31, 2000, the Company repaid all of the outstanding principal balance together with accrued interest. The Company recorded a pre-tax extraordinary loss of \$4.9 million in connection with the repayment during the year ended July 31, 2000.

### **19. Selected Quarterly Financial Data (unaudited)**

The table below presents selected quarterly financial data (unaudited) of the Company for the calendar quarters in the fiscal years ended July 31, 2002 and 2001:

Quarter Ended	Revenues	Loss from Operations	Income (loss) before cumulative effect of accounting change			
			Amount	Per Share —Basic	Per Share —Diluted	Net Income (Loss)
				(in thousands, except for per share data)		
2002:						
October 31 /a/	\$ 339,209	\$ (12,565)	\$ (11,332)	\$ (0.16)	\$ (0.16)	\$(158,315)
January 31	374,025	(27,774)	(17,212)	(0.23)	(0.23)	(17,212)
April 30	401,653	(42,829)	(49,593)	(0.64)	(0.64)	(49,593)
July 31 /b/	416,727	(141,124)	(78,229)	(0.99)	(0.99)	(78,229)
Total	<u>\$1,531,614</u>	<u>\$(224,292)</u>	<u>\$(156,366)</u>			<u>\$(303,349)</u>
2001:						
October 31 /c/	\$ 276,597	\$ (60,070)	\$ 869,568	\$12.43	\$11.27	\$ 869,568
January 31	287,597	(48,455)	(117,104)	(1.77)	(1.77)	(117,104)
April 30 /d/	335,722	(55,571)	(48,277)	(0.73)	(0.73)	(48,277)
July 31 /e/	331,034	(268,614)	(171,828)	(2.44)	(2.44)	(171,828)
Total	<u>\$1,230,950</u>	<u>\$(432,710)</u>	<u>\$ 532,359</u>			<u>\$ 532,359</u>

/a/ Included in net loss is a \$147.0 million cumulative effect of accounting change, net of \$3.5 million of income taxes, due to the adoption of SFAS No. 142.

/b/ Included in loss from operations was \$110.4 million of impairment charges related to the IRU received as part of the Tycom settlement.

/c/ Included in net income is \$1,037.7 million in gains on sales of subsidiary stock related to Net2Phone stock sales.

/d/ Included in loss from operations was \$193.4 million of impairment charges related to the IRU received as part of the Tycom settlement.

## IDT CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 20. Subsequent Events

In August 2002, Net2Phone and its Adir subsidiary consummated the settlement of their lawsuit filed on March 19, 2002 in the United States District Court for the District of New Jersey against Cisco Systems ("Cisco") and a Cisco executive who had been a member of the Adir board of directors. The suit arose out of the relationships that had been created in connection with Cisco's and Net2Phone's original investments in Adir and out of Adir's subsequent purchase of NetSpeak, Inc. in August 2001. The parties settled the suit and all related claims against Cisco and the Cisco executive in exchange for (i) the transfer, during the first quarter of fiscal 2003, to Net2Phone of Cisco's and Softbank Asia Infrastructure Fund's respective 11.5% and 7.0% interests in Adir and, (ii) the payment by Cisco, during such quarter, of \$19.5 million to Net2Phone and Adir. As a result of this settlement, Net2Phone will recognize, for the quarter ended October 31, 2002, a gain of approximately \$58.4 million. Net2Phone will be consolidated by IDT in Fiscal year 2003, which began on August 1, 2002.



**IDT CORPORATION**  
**FINANCIAL STATEMENT SCHEDULE—VALUATION AND QUALIFYING ACCOUNTS**

	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions (1)</u>	<u>Balance at End of Period</u>
	(Dollars, in thousands)			
<b>2000</b>				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts .....	\$ 7,643	\$20,154	\$ (1,026)	\$26,771
<b>2001</b>				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts .....	\$26,771	\$32,873	\$(37,136)	\$22,508
<b>2002</b>				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts .....	\$22,508	\$19,203	\$ (2,818)	\$38,893

(1) Uncollectible accounts written off, net of recoveries.

## **Exhibit G - Corporate Surety Bond**

**INDEMNITY BOND  
TO THE  
PEOPLE OF THE STATE OF TENNESSEE**

Bond No. 6176944

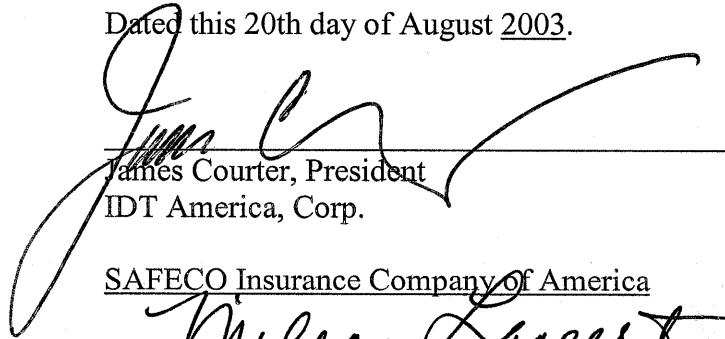
We, IDT America, Corp., principal and provider of resold and facilities-based local exchange telecommunications services within the State of Tennessee, and SAFECO Insurance Company of America, as an admitted surety insurer, bind ourselves unto the Telecommunications Regulatory Authority of the State of Tennessee, an Obligee, in the penal sum of \$20,000.00 (TWENTY THOUSAND DOLLARS).

The total aggregate liability under this bond is limited to \$20,000.00 (TWENTY THOUSAND DOLLARS).

The conditions of this obligation are such that the principal shall in all respects fully and faithfully comply with all applicable provisions of Tennessee law. This obligation shall be used to refund advance payments or deposits to individuals who have purchased local exchange telecommunications services of the principal if the principal is unable to provide such service or return the advance payments or deposits to its customers. Within twenty-four (24) hours of such event, principal shall provide to insurer a list of customers it believes to be outstanding in the State of Tennessee together with the outstanding advance payment and/or deposit balances. Bond agent agrees to act as administrator of the funds and to distribute remaining account balances to individuals who request refunds in writing.

This bond shall take effect as of the date hereon and shall remain in full force and effect until the surety is released from liability by the written order of the Tennessee Public Service Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days' written notice to the Tennessee Public Service Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period. The principal will promptly reissue a bond before the end of the thirty (30) day period for an amount equal to or greater than the value of this instrument unless the parties agree otherwise.

Dated this 20th day of August 2003.

  
\_\_\_\_\_  
James Courter, President  
IDT America, Corp.

SAFECO Insurance Company of America

By:   
\_\_\_\_\_  
Milena Langert, Attorney-in-fact

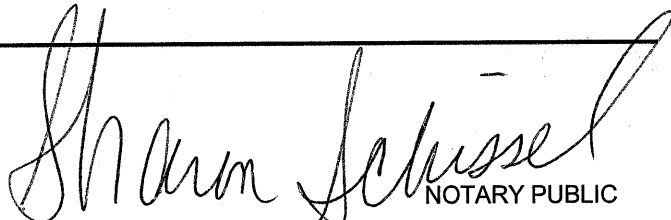
**SURETY ACKNOWLEDGMENT**STATE OF NEW YORK  
COUNTY OF NASSAU

{ SS:

On this 20th day of **AUGUST** in the year 2003, before me personally came **MILENA LANGERT** to me known, who being by me duly sworn, did depose and say that he resides in **WESTBURY, NEW YORK**; that he is the attorney-in-fact of **SAFECO INSURANCE COMPANY OF AMERICA** the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

NOTARY PUBLIC STAMP

**SHARON SCHISSEL**  
NOTARY PUBLIC, State of New York  
No. 01SC6065816  
Qualified in Queens County  
Commission Expires October 29, 2005

  
NOTARY PUBLIC**INDIVIDUAL - PRINCIPAL**STATE OF  
COUNTY OF

{ SS:

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, before me, the undersigned personally came and appeared to me personally known and known to me to be the individual described in and who executed the foregoing instrument and duly acknowledged to me that \_\_\_\_\_ executed the same.

NOTARY PUBLIC STAMP

NOTARY PUBLIC

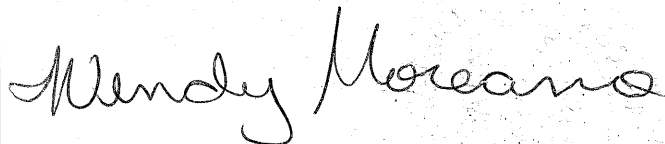
**CORPORATION - PRINCIPAL**STATE OF  
COUNTY OF

{ SS:

On this 26<sup>th</sup> day of August, 2003, before me came James Courter to me known, who, being by me duly sworn, did depose and say that he resides at 520 Broad St., Newark, NJ 07102 that he is President of IDT America Corp. the corporation described in and which executed the foregoing instrument as principal; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

NOTARY PUBLIC STAMP

**WENDY MOREANO**  
A Notary Public of New Jersey  
My Commission Expires 9/21/2003



NOTARY PUBLIC

**PARTNERSHIP - PRINCIPAL**STATE OF  
COUNTY OF

{ SS:

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, before me personally came \_\_\_\_\_ to me personally known, and known to me to be a member of the firm of \_\_\_\_\_ and he duly acknowledged to me that he executed the same for the uses and purposes therein mentioned.

NOTARY PUBLIC STAMP



POWER  
OF ATTORNEY

SAFECO INSURANCE COMPANY OF AMERICA  
GENERAL INSURANCE COMPANY OF AMERICA  
HOME OFFICE: SAFECO PLAZA  
SEATTLE, WASHINGTON 98185

No. 9423

KNOW ALL BY THESE PRESENTS:

That **SAFECO INSURANCE COMPANY OF AMERICA** and **GENERAL INSURANCE COMPANY OF AMERICA**, each a Washington corporation, does each hereby appoint

\*\*\*\*\***CRAIG H. TREIBER; JOHN H. TREIBER; RICHARD GUARINI; GARY MORRISSEY; MILENA LANGERT; JEAN C. SPEIRS; ROBERT G. TYNAN;** Garden City,  
New York\*\*\*\*\*

its true and lawful attorney(s)-in-fact, with full authority to execute on its behalf fidelity and surety bonds or undertakings and other documents of a similar character issued in the course of its business, and to bind the respective company thereby.

**IN WITNESS WHEREOF, SAFECO INSURANCE COMPANY OF AMERICA** and **GENERAL INSURANCE COMPANY OF AMERICA** have each executed and attested these presents

this 29 day of September, 1998

*R A Pierson*

R.A. PIERSON, SECRETARY

*W. Randall Stoddard*

W. RANDALL STODDARD, PRESIDENT

CERTIFICATE

Extract from the By-Laws of **SAFECO INSURANCE COMPANY OF AMERICA**  
and of **GENERAL INSURANCE COMPANY OF AMERICA**:

"Article V, Section 13. - FIDELITY AND SURETY BONDS ... the President, any Vice President, the Secretary, and any Assistant Vice President appointed for that purpose by the officer in charge of surety operations, shall each have authority to appoint individuals as attorneys-in-fact or under other appropriate titles with authority to execute on behalf of the company fidelity and surety bonds and other documents of similar character issued by the company in the course of its business... On any instrument making or evidencing such appointment, the signatures may be affixed by facsimile. On any instrument conferring such authority or on any bond or undertaking of the company, the seal, or a facsimile thereof, may be impressed or affixed or in any other manner reproduced; provided, however, that the seal shall not be necessary to the validity of any such instrument or undertaking."

Extract from a Resolution of the Board of Directors of **SAFECO INSURANCE COMPANY OF AMERICA**  
and of **GENERAL INSURANCE COMPANY OF AMERICA** adopted July 28, 1970.

"On any certificate executed by the Secretary or an assistant secretary of the Company setting out,

- (i) The provisions of Article V, Section 13 of the By-Laws, and
- (ii) A copy of the power-of-attorney appointment, executed pursuant thereto, and
- (iii) Certifying that said power-of-attorney appointment is in full force and effect,

the signature of the certifying officer may be by facsimile, and the seal of the Company may be a facsimile thereof."

I, R.A. Pierson, Secretary of **SAFECO INSURANCE COMPANY OF AMERICA** and of **GENERAL INSURANCE COMPANY OF AMERICA**, do hereby certify that the foregoing extracts of the By-Laws and of a Resolution of the Board of Directors of these corporations, and of a Power of Attorney issued pursuant thereto, are true and correct, and that both the By-Laws, the Resolution and the Power of Attorney are still in full force and effect.

**IN WITNESS WHEREOF**, I have hereunto set my hand and affixed the facsimile seal of said corporation

this 20th day of August, 2003



*R A Pierson*

R.A. PIERSON, SECRETARY



## SAFECO INSURANCE COMPANY OF AMERICA

## FINANCIAL STATEMENT — DECEMBER 31, 2002

Assets		Liabilities	
Cash and Bank Deposits .....	\$ 179,469,961	Unearned Premiums .....	\$ 595,543,757
*Bonds — U.S Government .....	268,315,526	Reserve for Claims and Claims Expense .....	1,496,818,407
*Other Bonds .....	1,951,399,639	Funds Held Under Reinsurance Treaties .....	440,473
*Stocks .....	389,420,765	Reserve for Dividends to Policyholders .....	2,564,831
Real Estate .....	13,429,179	Additional Statutory Reserve .....	—
Agents' Balances or Uncollected Premiums .....	296,414,018	Reserve for Commissions, Taxes and	
Accrued Interest and Rents .....	34,269,055	Other Liabilities .....	463,560,925
Other Admitted Assets .....	252,280,905	<b>Total .....</b>	<b>\$2,558,928,393</b>
<b>Total Admitted Assets .....</b>	<b><u>\$3,384,999,048</u></b>	Capital Stock .....	\$ 5,000,000
		Paid in Surplus .....	227,306,484
		Unassigned Surplus .....	593,764,171
		<b>Surplus to Policyholders .....</b>	<b>826,070,655</b>
		<b>Total Liabilities and Surplus .....</b>	<b><u>\$3,384,999,048</u></b>



\* Bonds are stated at amortized or investment value; Stocks at Association Market Values.  
Securities carried at \$113,865,629 are deposited as required by law.

I, MICHAEL C. PETERS, president of SAFECO National Insurance Company, do hereby certify that the foregoing is a true, and correct statement of the Assets and Liabilities of said Corporation, as of December 31, 2002, to the best of my knowledge and belief.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Corporation at Seattle, Washington, this 1st day of March, 2003.

President

**Exhibit H - Small and Minority-Owned  
Telecommunications Business Participation Plan**

**IDT AMERICA, CORP.**

**SMALL AND MINORITY-OWNED TELECOMMUNICATIONS  
BUSINESS PARTICIPATION PLAN**



Pursuant to T.C.A. §65-5-212, as amended, IDT America, Corp. ("IDT") submits this small and minority-owned Telecommunications business participation plan (the "Plan") along with its Application for a Certificate of Public Convenience and Necessity to provide competing intrastate and local exchange services in Tennessee.

## **I. PURPOSE**

The purpose of §65-5-212 is to provide opportunities for small and minority-owned businesses to provide goods and services to Telecommunications service providers. IDT is committed to the goals of §65-5-212 and to taking steps to support the participation of small and minority-owned Telecommunications businesses in the Telecommunications industry. IDT will endeavor to provide opportunities for small and minority-owned Telecommunications businesses to compete for contracts and subcontracts for goods and services. As part of its procurement process, IDT will make efforts to identify and inform minority-owned and small businesses that are qualified and capable of providing goods and services to IDT of such opportunities.

IDT's representatives have already contacted the Department of Economic and Community Development, the administrator of the small and minority-owned Telecommunications assistance program, to obtain a list of qualified vendors. Moreover, IDT will seek to increase awareness of such opportunities so that companies not otherwise identified will have sufficient information to participate in the procurement process.

## **II. DEFINITIONS**

As defined in §65-5-212.

*Minority-Owned Business.* Minority-owned business shall mean a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars (\$4,000,000).

*Small Business.* Small Business shall mean a business with annual gross receipts of less than four million dollars (\$4,000,000).

## **III. ADMINISTRATION**

IDT's Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out and promoting IDT's full efforts to provide equal opportunities for small and minority-owned businesses. The Administrator of the Plan will be:

Carl Wolf Billek  
IDT America, Corp.  
520 Broad Street  
Newark, New Jersey 07102-3111  
Telephone: 973-438-4854  
Facsimile: 973-438-1455

The Administrator's responsibilities will include:

- (1) Maintaining an updated Plan in full compliance with §65-5-212 and the rules and orders of the Tennessee Regulatory Authority.
- (2) Establishing and developing policies and procedures necessary for the successful implementation of the Plan.

- (3) Preparing and submitting such forms as may be required by the Tennessee Regulatory Authority, including the filing of required annual updates.
- (4) Serving as the primary liaison to and cooperate with the Tennessee Regulatory Authority, other agencies of the State of Tennessee, and small and minority-owned businesses to locate and use qualified small and minority-owned businesses as defined in §65-5-212.
- (5) Searching for and developing opportunities to use small and minority-owned businesses and encouraging such businesses to participate in and bid on contracts and subcontracts.
- (6) Providing records and reports and cooperate in any authorized surveys as required by the Tennessee Regulatory Authority.
- (7) Establishing a record-keeping system to track qualified small and minority-owned businesses and efforts to use such businesses.
- (8) Providing information and educational activities to persons within IDT and training such persons to seek out, encourage, and promote the use of small and minority-owned businesses.

In performance of these duties, the Administrator will utilize a number of resources, including:

Chambers of Commerce  
The Tennessee Department of Economic and Community Development  
The United States Department of Commerce  
Small Business Administration  
Office of Minority Business  
The National Minority Supplier Development Counsel  
The National Association of Women Business Owners  
The National Association of Minority Contractors  
Historically Black Colleges, Universities, and Minority Institutions

The efforts to promote and ensure equal opportunities for small and minority-owned businesses are primarily spelled out in the Administrator's duties above.

Additional efforts to provide opportunities to small and minority-owned businesses will include offering, where appropriate and feasible, small and minority-

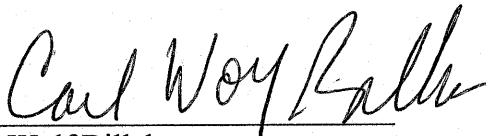
owned businesses assistance with technical, insurance, bonding, licensing, production, and deadline requirements.

#### **IV. RECORDS AND COMPLIANCE REPORTS**

IDT will maintain records of qualified small and minority-owned business and efforts to use the goods and services of such businesses. In addition, IDT will maintain records of educational and training activities conducted or attended and of the internal procurement procedures adopted to support this plan.

IDT will submit records and reports required by the Tennessee Regulatory Authority concerning the Plan. Moreover, IDT will cooperate fully with any surveys and studies required by the Tennessee Regulatory Authority.

IDT America, Corp.

By: 

Carl Wolf Billek

Associate General Counsel

Dated: September 22, 2003

## **Exhibit I - Toll Dialing Parity Plan**

## INTRODUCTION

Applicant will give end user customers the opportunity to designate a carrier for their intraLATA toll call traffic in those market areas where Applicant is a local exchange service provider. IntraLATA toll calls will automatically be directed to the designated carrier without the customer having to dial an access code.

## POLICIES

Applicant will deploy two-PIC (Primary Interexchange Carrier) technology in its switches. This technology will enable the customer to presubscribe to the same or a different carrier for their intraLATA and/or interLATA service.

Appropriate tariffs will be filed in accordance with this plan.

Applicant will offer customers the ability to access all participating carriers by dialing the appropriate access code (101XXXX).

All eligible Applicant end user telephone line numbers will be presubscribed and must have a PIC associated with them.

## CARRIER INFORMATION

Interexchange carriers will have the option of offering intraLATA service only, or both intraLATA and interLATA service.

Interexchange carriers will have the option of participating in all market areas or in a specific market area.

Interexchange carriers will be required to return a completed Non-Disclosure Agreement and Participation Agreement(s).

Applicant will not participate in billing disputes for intraLATA service between alternative competing interexchange carriers and their customers.

Carriers wishing to participate will be requested to submit Access Service Requests/Translation Questionnaires to the Access Tandem owner and to Applicant.

Applicant representatives will not initiate or accept three-way calls from an alternative interexchange carrier in order to discuss presubscription.

## CALL ELIGIBILITY/TOLL DIALING PLAN

All local service customers of Applicant will have calls routed according to the following plan:

If an IDT Customer Dials:	The Call is Handled By/Routed To:
911	PSAP on originating line number
411/555-1212	Applicant's Directory Assistance Operator
0-	Applicant's Operator
0 + intraexchange number	IntraLATA Toll Provider
1 + 7 or 10 digits	IntraLATA Toll Provider
0 + 7 or 10 digits interexchange number	InterLATA Toll Provider
101XXXX + 0-	XXXX Carrier
101XXXX + 0 + 7 or 10 digits	XXXX Carrier
101XXXX + 7 or 10 digits	XXXX Carrier

If an IDT customer originates a call to an alternative interexchange carrier's Operator by dialing 00-, the call will be routed to the PIC on that customer's line. If the customer originates a call to an alternative interexchange carrier's Operator by dialing an access code (e.g., 101XXXX + 0-), the call will be routed to the XXXX carrier. In both cases, the carrier's switch is responsible for routing this call to the alternative interexchange carrier's Operator or to an announcement.

## CUSTOMER CONTACT INFORMATION

New customers will be informed of their ability to select interLATA and intraLATA toll providers at the time they request service from an Applicant representative. Applicant will explain the differences between local, intra- and interLATA toll calls and clearly notify the customer that he or she may select a different, or the same, carrier for each call category. Upon request, Applicant will inform customers of participating carriers.

Applicant customer contact representatives will process customer initiated PIC selections to Applicant or to an alternative intraLATA carrier. Applicant will provide customers with confirmation notification of their PIC (Applicant or alternative carrier) selection. Carriers will have the option of allowing the Applicant representative to process PIC requests on their behalf.

For new customers or customers ordering an additional line, Applicant will accept as a bona fide PIC a selection of "NO PIC" as a choice. Applicant will ensure that "NO PIC" customers will have access code dialing capability to reach participating intraLATA carriers. NO PIC customers will be informed of their ability to complete intraLATA toll calls via access codes. Applicant will ensure that NO PIC customer intraLATA toll traffic is not automatically routed to the incumbent local exchange carrier.

Applicant will instruct its customer contact representatives not to comment on a customer's choice of its intraLATA PIC when the customer contacts Applicant to change the PIC. Applicant customer contact representatives will respond to customer inquiries about intraLATA carriers in a competitively neutral fashion.

If the intraLATA toll carrier selected by the customer permits Applicant to process orders on its behalf, Applicant will accept the PIC change request.

Applicant representatives will not discuss alternative carrier rates or services and will not provide customers with Carrier Identification Codes or access code dialing instructions.

#### PRESUBSCRIPTION INFORMATION

New line customers, including customers adding lines, will have the opportunity to select a participating carrier or NO PIC. If a customer fails to make a choice, that customer will be assigned a NO PIC designation. Customers assigned a NO PIC designation as set forth in this paragraph will be required to dial an access code to reach an intraLATA carrier's network.

Applicant will offer new line customers the ability to designate its PIC(s) or NO PIC without charge. After this 30-day period, Applicant will assess a \$5.00 PIC charge for each PIC change made. Applicant will impose a single \$5.00 fee when customers simultaneously change their intraLATA and interLATA toll service provider.

If a Applicant customer denies requesting a change in intraLATA toll providers as submitted by an intraLATA carrier, and the intraLATA carrier is unable to produce evidence that the PIC change was properly executed pursuant to New York Commission and federal PIC change rules, the PIC will be changed as per the customer's request and the intraLATA carrier will be responsible for all costs incurred for changing the customer's PIC.

Alternative interexchange carriers may submit PIC changes to Applicant via a fax/paper interface.

Applicant will process intraLATA PIC selections in the same manner and under the same intervals of time as interLATA PIC changes.

Carriers will be required to submit PIC changes using the Customer Account Record Exchange (CARE) format. Applicant will provide carriers with PIC order confirmation and reject information using the CARE format. Specific details regarding CARE will be provided to participating carriers.

For customers who change their local service provider from the incumbent LEC to Applicant and retain their incumbent LEC telephone number(s), Applicant, as part of the CARE PIC process, will provide the selected intraLATA carrier with both the retained (incumbent LEC) telephone number and the Applicant telephone number.



## **Exhibit J – Carrier List**

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**INCUMBENT LOCAL EXCHANGE SERVICE PROVIDERS  
CERTIFICATED IN TENNESSEE**

**(FACILITIES-BASED)**

- 1) **ARDMORE TELEPHONE COMPANY, INC.**  
P.O. Box 549  
517 Ardmore Avenue  
Ardmore, TN 38449  
(205) 423-2131  
(205) 423-2208 (Fax)
- 2) **BELLSOUTH**  
333 Commerce Street  
Nashville, TN 37201-3300  
(615) 214-3800  
(615) 214-8820 (Fax)
- 3) **CENTURY TELEPHONE OF ADAMSVILLE**  
P.O. Box 405  
116 N. Oak Street  
Adamsville, TN 38310  
(901) 632-3311  
(901) 632-0232 (Fax)
- 4) **CENTURY TELEPHONE OF CLAIBORNE**  
P.O. Box 100  
507 Main Street  
New Tazewell, TN 37825  
(423) 626-4242  
(423) 626-5224 (Fax)
- 5) **CENTURY TELEPHONE OF OOLTEWAH-COLLEGEDALE, INC.**  
P.O. Box 782  
5616 Main Street  
Ooltewah, TN 37363  
(423) 238-4102  
(423) 238-5699 (Fax)

**INCUMBENT LOCAL EXCHANGE SERVICE PROVIDERS  
CERTIFICATED IN TENNESSEE**

**(FACILITIES-BASED)**

- 6) **CITIZENS COMMUNICATIONS COMPANY OF TENNESSEE**  
P.O. Box 770  
300 Bland Street  
Bluefield, WV 24701
- 7) **CITIZENS COMMUNICATIONS COMPANY OF THE VOLUNTEER  
STATE**  
P.O. Box 770  
300 Bland Street  
Bluefield, WV 24701
- 8) **LORETTO TELEPHONE COMPANY, INC.**  
P.O. Box 130  
Loretto, TN 38469  
(931) 853-4351  
(931) 853-4329 (Fax)
- 9) **MILLINGTON TELEPHONE COMPANY, INC.**  
P.O. Box 429  
4880 Navy Road  
Millington, TN 38083-0429  
(901) 872-3311  
(901) 873-0022 (Fax)
- 10) **SPRINT-UNITED**  
112 Sixth Street  
Bristol, TN 37620  
(423) 968-8161  
(423) 968-3148 (Fax)
- 11) **TDS TELECOM-CONCORD TELEPHONE EXCHANGE, INC.**  
P.O. Box 22610  
701 Concord Road  
Knoxville, TN 37933-0610  
(423) 966-5828  
(423) 966-9000 (Fax)

**INCUMBENT LOCAL EXCHANGE SERVICE PROVIDERS  
CERTIFICATED IN TENNESSEE**

**(FACILITIES-BASED)**

- 12) TDS TELECOM-HUMPHREYS COUNTY TELEPHONE COMPANY**  
P.O. Box 552  
203 Long Street  
New Johnsonville, TN 37134-0552  
(931) 535-2200  
(931) 535-3309 (Fax)
- 13) TDS TELECOM-TELLICO TELEPHONE COMPANY, INC.**  
P.O. Box 9  
102 Spence Street  
Tellico Plains, TN 37385-0009  
(423) 671-4600  
(423) 253-7080 (Fax)
- 14) TDS TELECOM-TENNESSEE TELEPHONE COMPANY**  
P.O. Box 18139  
Knoxville, TN 37928-2139  
(423) 922-3535  
(423) 922-9515 (Fax)
- 15) TEC-CROCKETT TELEPHONE COMPANY, INC.**  
P.O. Box 7  
Friendship, TN 38034  
(901) 677-8181
- 16) TEC-PEOPLE'S TELEPHONE COMPANY, INC.**  
P.O. Box 310  
Erin, TN 37061  
(931) 289-4221  
(931) 289-4220 (Fax)
- 17) TEC-WEST TENNESSEE TELEPHONE COMPANY, INC.**  
P.O. Box 10  
244 E. Main Street  
Bradford, TN 38316  
(901) 742-2211  
(901) 742-2212 (Fax)

**18) UNITED TELEPHONE COMPANY**

P.O. Box 38

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Chapel Hill, TN 37034

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## **Exhibit K - Statement Regarding Numbering Issues**

Please provide answers to the following questions concerning numbering within your proposed service area.

1. What is your company's expected demand for NXXs per NPA within a year of approval of your application?

**Because IDT intends to provide service via UNE-P and resale, it does not intend to submit requests for NXXs within a year of approval of its application.**

2. How many NXXs do you estimate that you will request from NANPA when you establish your service footprint?

**Applicant estimates that it will not request any NXXs from NANPA once it establishes its service footprint.**

3. When and in what NPA do you expect to establish your service footprint?

**IDT has not determined this as of the date of Application. However, because IDT does not anticipate requesting NXXs, this question should not bear on the TRA's review of the Application.**

4. Will the company sequentially assign telephone numbers within NXXs?

**Applicant will receive telephone numbers from the ILEC; it shall not assign telephone numbers from the pool of available numbers.**

5. What measures does the company intend to take to conserve Tennessee numbering resources?

**Because Applicant will receive telephone numbers from the ILEC; it shall not need to take measures to conserve numbering resources.**

6. When ordering new NXXs for growth, what percentage fill of an existing NXX does the company use to determine when a request for a new NXX will be initiated?

**For the reasons stated above, this question does not apply to IDT's service offering and business model.**

## **Exhibit L – Statements Regarding Tennessee Specific Operational Issues**



1. How does the company intend to comply with TCA §65-21-114? In its description, please explain technically how the company will not bill for countywide calls within Tennessee.

**As a certificated IXC in the State, IDT has already implemented the TRA's intracounty calling requirements. IDT rates all calls subject to TCA §65-21-114, thus "billing" them at \$0.00.**

2. Is the company aware of the Tennessee County Wide Calling database maintained by BellSouth and the procedures to enter your telephone numbers on the database?

**Yes, IDT is aware of the Tennessee County Wide Calling database maintained by BellSouth and the procedures to enter our customers' telephone numbers on the database.**

3. Is your company aware of the local calling areas provided by the Incumbent Local Exchange Carriers in your proposed service areas?

**IDT is aware of the local calling areas provided by the Incumbent Local Exchange Carriers in its proposed service areas and intends to maintain the same local calling areas.**

4. Explain the procedures that will be implemented to assure that your customers will not be billed long distance charges for calls within the metro calling areas.

**IDT will rate all calls within metro calling areas at \$0.00, thus ensuring that its customers will not be billed long distance charges for calls within the metro calling areas.**

5. Please provide the name and telephone number of an employee of your company that will be responsible to work with the TRA on resolving customer complaints.

**The name and telephone number of the employee of IDT that will be responsible to work with the TRA on resolving customer complaints is Anthony Acevedo, whose telephone number is (973) 438-4854.**

6. Does the company intend to telemarket its services in Tennessee? If yes, is the company aware of the telemarketing statutes and regulations found in TCA §65-4-401 *et seq.* and Chapter 1220-4-11?

**At this time, IDT does not intend to telemarket its services in Tennessee. Regardless, IDT is aware of the telemarketing statutes and regulations found in TCA §65-4-401 *et seq.* and Chapter 1220-4-11.**

**Exhibit M - Sworn Pre-filed Testimony of Carl Wolf Billek**

**BEFORE THE  
TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**APPLICATION OF IDT AMERICA, CORP.  
FOR A CERTIFICATE TO PROVIDE  
COMPETING LOCAL TELEPHONE  
SERVICES**

**PRE-FILED TESTIMONY OF CARL WOLF BILLEK**

I, Carl Wolf Billek, do hereby testify as follows in support of the application of IDT America, Corp. ("IDT") for a Certificate of convenience and necessity as a competing telecommunications services provider to provide telecommunication services throughout the State of Tennessee.

**Q:** Please state your full name, business address, and position.

**A:** My name is Carl Wolf Billek. My business address is 520 Broad Street, Newark, New Jersey 07102-3111. My title is Associate General Counsel.

**Q:** Please briefly describe your duties.

**A:** I am in charge of all regulatory filings and ensuring compliance with all state and federal telecommunications rules and regulations.

**Q:** Please describe your business experience and educational background.

**A:** I have a B.A. from Rutgers University in New Jersey, a M.A. from the New School for Social Research in New York and a J.D. from New York Law School. I am a member of the New York and New Jersey bars. I have worked for IDT for the last three years in the aforesated capacity. Prior to my employment at IDT, I worked for the New Jersey Division of the Ratepayer Advocate.

**Q:** Are all statements in IDT America, Corp.'s Application true and correct to the best of your knowledge, information and belief?

**A:** To the best of my knowledge, all the statements in IDT America, Corp.'s Application are true and correct to the best of your knowledge, information and belief.

**Q:** Please describe the current corporate structure of IDT America, Corp.

**A:** IDT is a wholly owned subsidiary of IDT Domestic Telecom, Inc. IDT Domestic Telecom, Inc., a Delaware corporation, is a wholly owned subsidiary of IDT Telecom, Inc. IDT Telecom, Inc., a Delaware corporation,

**is a wholly owned subsidiary of IDT Corporation, a Delaware corporation that is publicly traded on the New York Stock Exchange.**

Q: Does IDT America, Corp. possess the requisite managerial, financial, and technical abilities to provide the services for which it has applied for authority?

A. **Yes. IDT America, Corp. possesses the requisite managerial, financial, and technical abilities to provide local exchange service in the State of Tennessee.**

Q: Please describe IDT America, Corp.'s financial qualifications.

A. **IDT's financial qualifications are set forth in Exhibit F.**

Q: Please describe IDT America, Corp.'s managerial and technical qualifications.

A. **IDT's managerial and technical qualifications are set forth in Exhibit E. IDT has been in the telecommunications business for over a decade and all states, including Tennessee, have concluded that IDT has the managerial and technical qualifications to provide interexchange service. Additionally, twenty-seven (27) states have found that IDT has the managerial and technical qualifications to provide local exchange service. No state has ever concluded to the contrary.**

Q: What services will IDT America, Corp. offer?

A. **IDT will offer voice grade local exchange services, along with optional services, as well as Operator and Directory Assistance, 911 and other services.**

Q: Will IDT America, Corp. offer service to all consumers within its service area?

A. **Yes. IDT America, Corp. will offer service to all consumers within its service area.**

Q: Does IDT America, Corp. plan to offer local exchange telecommunications services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines?

A. **IDT proposes to offer its services solely in those areas of the State of Tennessee where Bell South, GTE, Sprint and/or any other ILEC that does not enjoy a rural exemption under Section 251(f) of the Telecommunications Act of 1996 are the incumbent local exchange carrier.**

Q: Will the granting of a certificate of convenience and necessity to IDT America, Corp. serve the public interest?

- A. Yes. Granting of a certificate of convenience and necessity to IDT America, Corp. will serve the public interest as it will increase competition, thus forcing competing carriers to provide better services at more affordable rates in order to compete.**
- Q:** Does IDT America, Corp. intend to comply with all TRA rules, statues, and orders pertaining to the provision of telecommunications services in Tennessee, including those for disconnection and reconnection of service?
- A. Yes. IDT America, Corp. intends to comply with all TRA rules, statues, and orders pertaining to the provision of telecommunications services in Tennessee, including those for disconnection and reconnection of service.**
- Q:** Has any state ever denied IDT America, Corp. or one of its affiliates authorization to provide intrastate service?
- A. No state has ever denied IDT America, Corp. or one of its affiliates authorization to provide intrastate service.**
- Q:** Has any state ever revoked the certification of IDT America, Corp. or one of its affiliates?
- A. The State of Tennessee revoked the certification of IDT's affiliate, Winstar Communications, LLC as a result of Winstar's failure to submit an annual report. It is IDT's understanding that Winstar is making efforts to regain its certification.**
- Q:** Has IDT America, Corp. or one of its affiliates ever been investigated or sanctioned by any regulatory authority for service or billing irregularities?
- A. To the best of my knowledge, neither IDT America, Corp. nor any of its affiliates ever been investigated or sanctioned by any regulatory authority for service or billing irregularities.**
- Q:** Who is knowledgeable about IDT America, Corp.'s operations and will serve as IDT America, Corp.'s regulatory and customer service contact?
- A. I will serve as IDT's regulatory contact. Nadine Duhamel ((937) 438-4485) and Anthony Acevedo ((973) 438-4827) shall serve as IDT's customer service contact.**
- Q:** Please explain in detail IDT America, Corp.'s proposed procedures for responding to information requests from the TRA and its staff.
- A. IDT makes all possible effort to respond to all regulatory/customer service inquiries within five (5) business days or less, if required by statute.**

Q: Does this conclude your testimony?

A. Yes.

I swear that the foregoing testimony is true and correct to the best of my knowledge.

Carl Wolf Billek

Carl Wolf Billek  
Associate General Counsel  
IDT America, Corp.

Subscribed and sworn to me this 27<sup>th</sup> day of September, 2003.

Wendy Moreano  
Notary Public

WENDY MOREANO

A Notary Public of New Jersey

My commission expires My Commission Expires 9/21/2003

State of New Jersey

County of Essex